

The Department of the Treasury
ANNUAL
FINANCIAL REPORT



PART III

MESSAGE FROM THE ASSISTANT SECRETARY FOR MANAGEMENT AND CHIEF FINANCIAL OFFICER

November 17, 2008

Secretary Paulson's message describes the Department of the Treasury's unprecedented role and expanded responsibilities in helping to stabilize the nation's economy. During the first critical weeks following enactment of the Housing and Economic Recovery Act and the Emergency Economic Stabilization Act, Treasury professionals in the areas of procurement, financial management, information technology, human capital, and operations acted swiftly to ensure that these functions were mobilized to support rapid implementation. We anticipate a continuing critical role for these teams in fiscal year 2009 in support of the Troubled Asset Relief Program and the newly established Office of Financial Stability.



During the course of the year, Treasury took a number of steps to strengthen corporate management councils and forums, including bureau head meetings and active Department-wide functional councils headed by the Chief Financial Officer, the Chief Information Officer, the Chief Human Capital Officer, the Senior Procurement Executive, and the Director of Emergency Programs. To strengthen the Department's privacy, governance, disclosure, and record-keeping programs, a new Office of Privacy and Treasury Records was established by combining key functions and elevating the integrated effort to report directly to the Assistant Secretary for Management. The Department also re-energized the E-Board Information Technology Investment Oversight forum to provide increased executive-level strategic direction and scrutiny of major projects, and strengthened corporate management of shared services by initiating an ongoing Working Capital Fund Review Program with participation by all bureaus.

The Department of the Treasury once again received an unqualified audit opinion on its financial statements. We are working diligently to resolve financial systems material weaknesses which are preventing the Department from achieving full compliance with federal financial systems requirements and, along with weaknesses in non-financial areas, result in providing only qualified assurance that the Department is meeting federal financial management and internal control objectives. The Department closed two long-standing material weaknesses in fiscal year 2008, and no new weaknesses were identified, leaving four open material weaknesses as of September 30, 2008. These remaining weaknesses involve complex solutions that will require several years of sustained, hard work to resolve. The last of the Department's material weaknesses is scheduled to be closed in fiscal year 2012. The Department will also need to devote special attention to the Management Challenges outlined by the Department's Inspectors General. These challenges do not necessarily indicate deficiencies in performance; however, they represent inherent risks that must be monitored continuously. This is especially true of the new challenges the Department faces in working to stabilize and improve the distressed financial markets.

In the coming months, as our nation awaits the beginning of a new Administration, the dedicated men and women of the Department of the Treasury will continue to carry out the vital mission of the Treasury Department on behalf of the American people, while making all necessary preparations to support a smooth and effective transition.

Sincerely,

A handwritten signature in dark ink, appearing to read 'P. McCarthy', with a stylized flourish at the end.

Peter B. McCarthy
Assistant Secretary for Management
and Chief Financial Officer

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OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

November 17, 2008

INFORMATION MEMORANDUM FOR SECRETARY PAULSON

FROM:

SUBJECT: Audit of the Department of the Treasury's Financial Statements for Fiscal Years 2008 and 2007

INTRODUCTION

I am pleased to transmit KPMG LLP's report on the Department of the Treasury's (the Department) financial statements as of and for the fiscal years (FY) ending September 30, 2008 and 2007.

The Department of the Treasury Office of Inspector General is responsible for ensuring that the financial statement audit of the Department of the Treasury is conducted in accordance with the Chief Financial Officers' Act of 1990, as amended by the Government Management Reform Act of 1994.

RESULTS OF INDEPENDENT AUDIT

Under a contract monitored by my office, KPMG LLP, an independent certified public accounting firm, performed an audit of the FY 2008 and 2007 financial statements. The contract required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States; Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*; and the *GAO/PCIE Financial Audit Manual*.

In its audit of the Department of the Treasury, KPMG LLP

- found that the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles;
- reported that the three material weaknesses related to financial systems and reporting identified by the auditor of the Internal Revenue Service (IRS) are collectively considered a material weakness for the Department as a whole;
- reported that control deficiencies related to (1) financial management practices at the departmental level and (2) controls over foreign currency transactions represent significant deficiencies for the Department as a whole;
- reported an instance of noncompliance with laws and regulations related to the Internal Revenue Code Section 6325;
- reported that the Department's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA); and
- reported an instance of a potential Anti-deficiency Act violation related to transactions and activities of the Financial Crimes Enforcement Network

IRS's pervasive internal control weaknesses have existed since audits of its financial statements were initiated in FY 1992. The Government Accountability Office (GAO), the auditor of IRS's financial statements for the fiscal years ending September 30, 2008 and 2007, reported that the bureau continued to make significant strides in addressing its financial management challenges and material weaknesses in its internal controls. In particular, IRS made progress to address control deficiencies over tax revenue and refunds such that GAO no longer considers the remaining control deficiencies in this area a material weakness. IRS also improved internal controls over safeguarding hard-copy taxpayer receipts and data that enabled GAO to conclude that the remaining issues in this area no longer constitute a significant deficiency. However, IRS faces serious challenges from its use of obsolete financial management systems that do not conform to the requirements of FFMIA. Until IRS resolves the issues affecting the automated systems it relies on to process tax related transactions, it will be challenged to sustain the level of effort needed to produce reliable financial statements in a timely manner. Continued IRS and Department senior leadership involvement is essential to effectively address IRS's remaining financial management challenges.

EVALUATION OF AUDITORS' PERFORMANCE

To ensure the quality of the audit work performed, we reviewed KPMG LLP's approach and planning of the audit, evaluated the qualifications and independence of the auditors, monitored the progress of the audit at key points, reviewed and accepted KPMG LLP's audit report, and performed other procedures that we deemed necessary. We also provide oversight of the audits of financial statements and certain accounts and activities conducted at 12 component entities of the Department. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the financial statements or conclusions about the effectiveness of internal control or on whether the Department's financial management systems substantially complied with the Federal Financial Management Improvement Act of 1996 or conclusions on compliance with laws and regulations. KPMG LLP is responsible for the attached auditor's report dated November 17, 2008, and the conclusions expressed in that report. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

I appreciate the courtesies and cooperation extended to KPMG LLP and my staff during the audit. Should you or your staff have questions, you may contact me at (202) 622-1090 or Marla A. Freedman, Assistant Inspector General for Audit, at (202) 927-5400.

Attachment

cc: Peter B. McCarthy
Assistant Secretary for Management
and Chief Financial Officer



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Inspector General
U.S. Department of the Treasury:

We have audited the accompanying consolidated balance sheets of the U.S. Department of the Treasury (Department) as of September 30, 2008 and 2007, and the related consolidated statements of net cost, and changes in net position, combined statements of budgetary resources, and the statements of custodial activity (hereinafter referred to as “consolidated financial statements”) for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. These consolidated financial statements are incorporated in the accompanying *U.S. Department of the Treasury Fiscal Year 2008 Performance and Accountability Report (PAR)*.

We did not audit the amounts included in the consolidated financial statements related to the Internal Revenue Service (IRS), a component entity of the Department. The financial statements of the IRS were audited by another auditor whose report thereon has been provided to us. Our opinion, insofar as it relates to the amounts included for the IRS, is based solely on the report of the other auditor.

In connection with our fiscal year 2008 audit, we, and the other auditor, also considered the Department’s internal control over financial reporting and tested the Department’s compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements. Our conclusions on internal control over financial reporting and compliance and other matters, insofar as it relates to the IRS, are based solely on the report of the other auditor.

Summary

As stated in our opinion on the consolidated financial statements, based on our audits and the report of the other auditor, we concluded that the Department’s consolidated financial statements as of and for the years ended September 30, 2008 and 2007, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 24, 25, and 26, the Department is a participant in significant legislation and transactions whose purpose is to assist in stabilizing the financial markets.

Our, and the other auditor’s consideration of internal control over financial reporting resulted in the following conditions being identified as significant deficiencies:

- Financial Systems and Reporting at the IRS (Repeat Condition)
- Financial Management Practices at the Departmental Level (Repeat Condition)
- Controls Over Foreign Currency Transactions

We consider the significant deficiency related to Financial Systems and Reporting at the IRS noted above, to be a material weakness.



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The results of our tests, and the tests performed by the other auditor, of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed an instance of noncompliance with *Internal Revenue Code* (IRC) Section 6325, that is required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. In addition, the Department's financial management systems did not substantially comply with the *Federal Financial Management Improvement Act of 1996* (FFMIA) requirements related to compliance with Federal financial management system requirements (FFMSR), applicable Federal accounting standards, and the U.S. Government Standard General Ledger (SGL) at the transaction level.

We also reported a matter related to compliance with the *Anti-deficiency Act* at the Financial Crimes Enforcement Network (FinCEN). This potential violation is currently under review by the Government Accountability Office (GAO).

The following sections discuss our opinion on the Department's consolidated financial statements; our, and the other auditor's, consideration of the Department's internal controls over financial reporting; our, and the other auditor's, tests of the Department's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements; and management's and our responsibilities.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of the Department of the Treasury as of September 30, 2008 and 2007, and the related consolidated statements of net cost, changes in net position, the combined statements of budgetary resources, and the statements of custodial activity, for the years then ended.

We did not audit the amounts included in the consolidated financial statements related to the IRS, a component entity of the Department, which reflect total assets of \$35.6 billion and \$31.3 billion, net costs of operations of \$12.2 billion and \$11.7 billion, and custodial revenues of \$2.8 trillion and \$2.7 trillion, as of and for the years ended September 30, 2008 and 2007, respectively. The financial statements of the IRS, as of and for the years ended September 30, 2008 and 2007, were audited by another auditor whose report dated November 5, 2008, has been provided to us, and our opinion, insofar as it relates to the amounts included for the IRS, is based solely on the report of the other auditor.

In our opinion, based on our audits, and the report of the other auditor, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Department of the Treasury as of September 30, 2008 and 2007, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 24, 25, and 26, the Department is a participant in significant legislation and transactions whose purpose is to assist in stabilizing the financial markets.

The information in the PAR in Part I – *Management's Discussion and Analysis*, and the Required Supplemental Information section of Part III – *Annual Financial Report*, is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We, and the other auditor, have applied certain limited procedures, which consisted



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principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits, and the audits of the other auditor, were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the Message from the Secretary, in the PAR in Part II – *Annual Performance Report*; and in Part IV – *Other Accompanying Information*, are presented for purposes of additional analysis and are not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

Internal Control Over Financial Reporting

Our, and the other auditor's, consideration of the internal control over financial reporting is described in the Responsibilities section of this report. Our consideration of internal control over financial reporting was for a limited purpose and would not necessarily disclose all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. This report also includes our consideration of the results of the other auditor's testing of internal control over financial reporting that is reported on separately by the other auditor. The other auditor's consideration of internal control over financial reporting was for the purpose of providing an opinion on the effectiveness of IRS's internal controls. This report, insofar as it relates to the results of the other auditor, is based solely on the report of the other auditor.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's consolidated financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Department's internal control.

In our fiscal year 2008 audit, we, and the other auditor, consider the deficiencies, summarized below, to be significant deficiencies in internal control over financial reporting. The significant deficiency related to Financial Systems and Reporting at the IRS noted below is considered to be a material weakness. Because of the IRS material weakness in internal controls discussed below, the other auditor's opinion on internal control stated that the IRS did not maintain effective internal control over financial reporting (including safeguarding of assets), or compliance with laws and regulations, and thus did not provide reasonable assurance that losses, misstatements, and noncompliance with laws material in relation to the financial statements would be prevented or detected on a timely basis.



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MATERIAL WEAKNESS

Financial Systems and Reporting at the IRS (Repeat Condition)

IRS continued to make progress in addressing weaknesses in internal control identified in previous years. However, significant deficiencies related to financial reporting, unpaid tax assessments, and information security controls continued to exist in fiscal year 2008.

These weaknesses adversely affect IRS's ability to fulfill its responsibilities as the nation's tax collector because it is unable to routinely obtain comprehensive, timely, accurate, and useful, information for day-to-day decision making. As a result, IRS personnel will continue to be challenged to sustain the level of effort needed to produce reliable financial statements timely until the IRS successfully addresses underlying systems and internal control weaknesses.

The material weaknesses in internal control over financial reporting identified by the auditors of IRS's financial statements, all of which are repeat conditions, and collectively considered a material weakness for the Department as a whole, are summarized as follows:

- Weaknesses in controls over the financial reporting process, resulting in IRS not (1) being able to prepare its balance sheet without extensive compensating procedures, and (2) having current and reliable ongoing cost information to support management decision making and to prepare cost-based performance measures;
- Weaknesses in controls over unpaid tax assessments, resulting in IRS's inability to properly manage unpaid tax assessments and leading to increased taxpayer burden; and
- Weaknesses in information security controls, resulting in increased risk of unauthorized individuals accessing, altering, or abusing proprietary IRS programs and electronic data and taxpayer information.

The material weaknesses in internal control noted above may adversely affect decisions by IRS's management that is based, in whole or in part, on information that is inaccurate because of these deficiencies.

Additional details related to the material weaknesses identified above have been provided to IRS management by the auditors of the IRS's financial statements in their report dated November 5, 2008.

Recommendations

Recommendations to address the material weaknesses discussed above have been provided to IRS management by the auditors of the IRS's financial statements. We recommend that the Assistant Secretary for Management and Chief Financial Officer (ASM/CFO) provide effective oversight to ensure that corrective actions are taken by the IRS to fully address this material weakness.



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SIGNIFICANT DEFICIENCIES

Financial Management Practices at the Departmental Level (Repeat Condition)

Due to expanded accounting and reporting requirements and responsibilities of the Department, improvements continue to be needed in current financial management and reporting practices.

The Office of Accounting and Internal Control (AIC) within the Office of the Deputy Chief Financial Officer (ODCFO), is responsible for establishing and maintaining financial policies that guide consolidated financial reporting throughout the Department, and implementing internal controls to ensure the overall integrity of financial data reported at the consolidated level. AIC prepares consolidated financial statements including footnote and supplementary data, from trial balances and other financial data submitted by the components. AIC uses this information to compile the Department's consolidated financial statements. AIC is dependent on the Treasury components for complete, accurate, and timely submission of monthly financial data. Certain quality control procedures are conducted by AIC to ensure that component financial and other data is accurate and complete for inclusion in the consolidated financial statements. However, several control deficiencies were noted, as described below, that indicated a weak control environment, resulting in financial management and reporting weaknesses. These deficiencies in internal control over financial reporting are collectively considered a significant deficiency for the Department as a whole.

- We continue to note that AIC, in addition to other Departmental Offices such as the Office of Financial Management (OFM), and the Office of Performance Budgeting and Strategic Planning (OPBSP), have financial management infrastructures that are inadequately staffed for the financial reporting responsibilities of such a large and complex Executive Branch agency. Several key personnel having significant institutional knowledge of the Department's accounting and reporting processes within these offices are at or near retirement eligibility status. In the event of retirement or sudden prolonged absence of one or more of the key accounting individuals, Treasury would face a significant loss of operational and institutional knowledge absent a comprehensive, formalized succession plan, resulting in significant financial management deficiencies. In fiscal year 2008, we noted that AIC successfully replaced one key official that retired in the current year, and supplemented its existing staff with two additional staff members on detail from other Treasury components. Although this temporarily helped with AIC's short-term needs, AIC, OFM, and OPBSP's long-term human capital need of personnel who have the requisite financial accounting background, knowledge, and expertise, to assist in the financial management and reporting of such a large and complex executive branch agency remains to be addressed.
- AIC's supervisory and monitoring control procedures were not consistently performed and documented over certain financial data and other information transmitted by Treasury components. During our review of interim and final consolidated financial statements, we noted errors and discrepancies that were only corrected after they were identified during audit test work. In other instances, we noted inadequate and/or untimely follow-up of accounting and/or reporting issues.
- AIC has not yet formalized written policies and procedures for the required accounting and reporting of various non-routine, complex, and unique transactions, such as the reporting of the U.S. Mint's Seigniorage amount, accrued interest and discount on debt, transfers to the General Fund and Other, in the Department's consolidated financial statements.



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- AIC procedures for monitoring compliance with existing, as well as new laws and regulations that apply to the Department need improvement. Specifically, we noted that there is no formal communication between Treasury's Office of General Counsel (OGC) and AIC on matters related to new legislation, the assessment of compliance requirements, if any, and subsequent actions to be taken by the Department. Currently, interpretation of new laws and regulations, and resulting compliance needs, are left up to the discretion and interpretation of Department personnel. Without a formal communication process, there is significant risk of noncompliance with laws and regulations by the Department and its components.
- Our reviews of Department-wide testing and reporting on internal control over financial reporting, in accordance with OMB Circular No. A-123, *Management's Responsibility for Internal Control* (A-123), continue to identify similar implementation issues as in prior years. Although the Department established an effective implementation plan (Plan) to assess, document, test, and report on internal control over financial reporting, certain Treasury components did not fully execute the Plan. Specifically, some components did not have, or provide verifiable and documented results to support their conclusion as to whether internal control over financial reporting was properly designed and operating effectively for certain areas in accordance with the Department's guidelines. In addition, the AIC, which is responsible for the Department-wide monitoring of A-123 compliance, did not effectively review the work performed by components to assess whether the methodology and implementation requirements had been followed.
- As a result of the *Housing and Economic Recovery Act* legislation of 2008, the Department was involved in various financial transactions unique to the Department. These transactions were processed in a shortened time-frame causing various control deficiencies related to documentation of policies and procedures and financial reporting. The Department overcame significant time and personnel resource constraints to appropriately execute, manage, and report the results of these unprecedented events and transactions all of which occurred during the last month of the fiscal year. One transaction type involved the purchase of GSE Mortgage Backed Securities (MBS) in the amount of \$3.3 billion. The Department concluded that the purchase of GSE MBS should be accounted under the Federal Credit Reform Act of 1990, as amended (FCRA). FCRA has significant documentation requirements. Since the MBS program was implemented in a shortened time-frame, the Department did not properly document policies and procedures, and controls relating to the MBS accounting and reporting. The primary cause of this lack of documentation was that Treasury did not have the resources, including personnel to prepare the required documentation supporting the accounting, re-estimate valuation, and financial reporting of the MBS purchases under FCRA.

The *Federal Managers' Financial Integrity Act of 1982* (FMFIA) requires that agencies establish internal controls according to standards prescribed by the Comptroller General and specified in the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (*Standards*). The GAO defines "internal control" as an integral component of an organization's management that provides reasonable assurance that the following objectives are achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. The GAO *Standards* identify the control environment as one of the five key elements of control, which emphasizes the importance of control conscientiousness in management's operating philosophy and



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commitment to internal control. These standards cover controls such as human capital practices, supervisory reviews, and segregation of duties, policies, procedures, and monitoring.

A-123 requires agencies to (1) develop and implement management controls; (2) assess the adequacy of management controls; (3) identify needed improvements; (4) take corresponding corrective actions; and (5) report annually on management controls in support of FMFIA. The issues we identified occurred mainly because certain key AIC and OFM financial personnel have excessive workloads, and there is insufficient time for these key financial personnel to devote to supervisory reviews and other financial management activities. This resulted in increased reliance being placed on the annual audit process to identify errors and omissions in the consolidated financial statements, as well as the Department's implementation of A-123.

Recommendations

We recommend that the ASM/CFO, Deputy CFO, and Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer, with input from the Directors of AIC, OFM and OPBSP, as appropriate:

1. Complete a human capital needs assessment, with particular focus on the management skills needed to perform the daily operations of these offices. Once the human capital needs are assessed, hire staff, or consider transferring suitable staff from other offices within Treasury to meet these immediate needs.
2. Establish new policies or improve existing policies and procedures to ensure that:
 - i. Quality control reviews are performed on the consolidated financial statements by responsible officials to ensure that all errors and inconsistencies are corrected in a timely manner; and
 - ii. Adequate reviews are conducted by senior AIC officials on all documentation prepared to support consolidated financial statement amounts to ensure that the documents and information provided are accurate and complete, and such review is documented.
3. Ensure that documentation exists to support all new and/or unique accounting and reporting requirements as well as non-routine or complex accounting and reporting matters. For example, any new financial statement footnote disclosures that are developed should include a policy memo, financial statement footnote disclosure format as well as evidence of review by responsible officials within AIC of both the policy and the format to be followed.
4. Ensure that communication is initiated on a periodic basis (at least quarterly) with OGC, to obtain information and documentation on any new laws and regulations that apply at the Department/component level, including documentation of OGC's assessment of compliance requirements especially those having financial impact.
5. Monitor the A-123 work being conducted by components to ensure that the Department's A-123 guidance is fully implemented, and if not, document the rationale or mitigating factors that were considered for not following the Department's requirements.



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6. Document policy and procedures related to FCRA transactions, periodically examine performance of the credit programs to re-estimate cash flow projections and assumptions, and have affected personnel continue to consult with other Federal agencies that have substantial credit reform accounting experience.

Controls Over Foreign Currency Transactions

Improvements are needed related to internal control over foreign currency investment transactions at the Exchange Stabilization Fund (ESF). ESF's foreign currency operations are managed on ESF's behalf by a designated fiscal agent. The fiscal agent is responsible for the monthly accounting and reporting to the ESF of foreign currency activities. The fiscal agent also provides data that supports various ESF financial statement disclosures such as for fair values. The ESF relies entirely on the financial information reported by the fiscal agent and incorporates the financial data reported monthly into its general ledger and financial statements. Although ESF's financial data are subject to detailed review and validation by the fiscal agent, ESF does not have sufficient internal independent checks and balances in place to ensure the accuracy and completeness of the transactions and balances reported to them by the fiscal agent. Comprehensive internal processes, procedures, and controls over foreign currency transactions are essential to ensure that these transactions and balances are complete and accurate, and appropriately reported.

Additional details related to the significant deficiency identified above will be provided to ESF management by the auditors of the ESF's financial statements.

Recommendations

Recommendations to address the significant deficiency discussed above will be provided to ESF management by the auditors of the ESF's financial statements. We recommend that the ASM/CFO provide effective oversight to ensure that corrective actions are taken by the ESF to fully address this significant deficiency.

Compliance and Other Matter

The results of certain of our tests, and the tests performed by the other auditor, of compliance as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed the following instance of noncompliance or other matters that is required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

- **Noncompliance with IRC Section 6325** - The IRC grants IRS the power to file a lien against the property of any taxpayer who neglects or refuses to pay all assessed Federal taxes. Under IRC Section 6325, the IRS is required to release a Federal tax lien within 30 days after the date the tax liability is satisfied, or has become legally unenforceable, or the Secretary of the Treasury has accepted a bond for the assessed tax. Instances were noted during the fiscal year 2008 audit where the IRS did not timely release the applicable Federal tax lien within 30 days of the tax liability being either paid off or abated as required by the IRC (Repeat Condition).



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The results of our other tests, and the tests performed by the other auditor, of compliance as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA, and the tests performed by the other auditor, disclosed instances where the Department's financial management systems did not substantially comply with FFMIA Section 803(a) requirements (Repeat Condition) related to compliance with (1) federal financial management system requirements (FFMSR), (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger (SGL) at the transaction level, as described below.

Instances of noncompliance with FFMSR are summarized below:

- IRS's financial management systems do not provide timely and reliable information for financial reporting and preparation of financial statements. IRS had to rely on extensive compensating procedures to generate reliable financial statements.
- Deficiencies were identified in information security controls at the IRS, resulting in increased risk of unauthorized individuals accessing, altering, or abusing proprietary IRS programs and electronic data and taxpayer information.

Instances of noncompliance with Federal accounting standards are summarized below:

- Material weaknesses at the IRS related to controls over financial reporting and unpaid tax assessments.
- IRS's financial management system cannot produce reliable, current information on the costs of its activities available to support decision making on a routine basis, consistent with the requirements of Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Standards*.

An instance of noncompliance with the SGL at the transaction level is summarized below:

- IRS's core general ledger system for tax-related activities does not comply with the SGL at the transaction level and also does not post transactions in conformance with SGL posting models.

The Secretary of the Treasury also stated in his Letter of Assurance, included in Part I – *Management's Discussion and Analysis*, of the accompanying PAR that the Department cannot provide assurance that its financial management systems are in substantial compliance with FFMIA. The Department's remedial actions and related time frames are presented in Appendix D of the PAR.

FFMIA requires that if the head of an agency determines that its financial management systems do not substantially comply with FFMIA, a remediation plan must be developed, in consultation with OMB that describes the resources, remedies, and intermediate target dates for achieving substantial compliance. FFMIA also requires OMB concurrence with any plan not expected to bring the agency's system into substantial compliance within three years after a determination of noncompliance is made.



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IRS has established a remediation plan to address the conditions affecting its systems' inability to comply substantially with the requirements of FFMIA. This plan outlines the actions to be taken to resolve these issues, but these actions are long term in nature and are tied to IRS's system modernization efforts.

Recommendation

We recommend that the ASM/CFO provide effective oversight to ensure that (1) IRS implements appropriate controls so that Federal tax liens are released in accordance with Section 6325 of the IRC; and (2) IRS implements its plan of action to solve financial management problems so as to enable resolving the identified instances of financial management systems noncompliance with the requirements of FFMIA. Detailed recommendations to address the noncompliance findings discussed above have been provided to IRS management by the auditors of the IRS's financial statements.

Other Matter

The Department's management informed us of an instance of a potential *Anti-deficiency Act* violation related to transactions and activities of FinCEN. Specifically, budgetary control weaknesses existing within FinCEN may have allowed a potential violation of the *Anti-deficiency Act*. This matter is currently under review by the GAO.

Management's Response to Internal Control and Compliance Findings

The Department's management has indicated in a separate letter immediately following this report that it concurs with the findings presented in this section of our report. Further, it has responded that it will take corrective action, as necessary, to ensure the matters presented are addressed by the respective component management within the Department. We did not audit the Department's response and, accordingly, we express no opinion on it.

* * * * *

We noted certain additional matters involving internal control over financial reporting and its operation that we will report to the Department's management in a separate letter.

Responsibilities

Management's Responsibilities. Management is responsible for the consolidated financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, contracts, and grant agreements applicable to the Department.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2008 and 2007 consolidated financial statements of the Department based on our audits and the report of the other auditor. We, and the other auditor, conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit



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procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audits, and the report of the other auditor, related to the amounts included for the IRS, provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2008 audit, we considered the Department's internal control over financial reporting, exclusive of the internal control over financial reporting related to the IRS, by obtaining an understanding of the design effectiveness of the Department's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. Internal control over financial reporting related to the IRS was considered by the other auditor whose report thereon dated November 5, 2008 has been provided to us. We, and the other auditor, did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting. The objective of the other auditor's audit was to express an opinion on the effectiveness of the IRS's internal control over financial reporting. Accordingly, the other auditor provided an opinion on IRS's internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Department's fiscal year 2008 consolidated financial statements are free of material misstatement, we, and the other auditor, performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in Section 803(a) of FFMIA. We, and the other auditor, limited our tests of compliance to the provisions described in the preceding sentence, and we, and the other auditor, did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Department. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.



U.S. Department of the Treasury
November 17, 2008
Page 12 of 12

This report is intended solely for the information and use of the Department's management, the Department's Office of Inspector General, OMB, the GAO, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 17, 2008



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

November 17, 2008

KPMG LLP
2001 M Street, N.W.
Washington, D.C. 20036

Ladies and Gentlemen:

On behalf of Secretary Paulson, I am responding to your draft audit report on the Department of the Treasury's fiscal year (FY) 2008 consolidated financial statements. All of our bureaus and program offices can be proud of the Department's success in issuing a timely and accurate Performance and Accountability Report for the seventh consecutive year of accelerated reporting. Further, they are to be congratulated for overcoming many obstacles to achieve another unqualified opinion on the Department's financial statements.

These successful results also are due in large part to the high level of professionalism, technical expertise, and partnership demonstrated by KPMG in conducting the audit. Treasury has appreciated your efforts during the audit process to provide timely, constructive advice on how to improve our financial reporting. Treasury is equally appreciative of the expertise and commitment level demonstrated by the other organizations involved in the audit process – the Office of Inspector General (OIG), the Government Accountability Office (GAO), and the firms that audited several of our bureaus.

The Department of the Treasury continued to make significant progress during FY 2008 to address financial and information management deficiencies. The Office of the Chief Information Officer made substantial improvements in Treasury's Information Security Program and achieved an audit outcome from the OIG of "significant progress in compliance" with the Federal Information Security Management Act (FISMA), for both Treasury unclassified and National Intelligence systems. As a result, the Department formally closed the longstanding FISMA compliance material weakness in September 2008. As reported by GAO, the Internal Revenue Service made significant progress in addressing its controls over the collection of tax revenues due to the federal government and over the issuance of tax refunds.

We acknowledge the Departmental level material weakness, the significant deficiencies, and the instances of noncompliance with laws and regulations described in your report. We agree with your recommendations. We will focus on necessary corrective actions to address each of these items.

We appreciate the continuing professional, cooperative relationship that exists with both KPMG and the Office of Inspector General.

Sincerely,

Peter B. McCarthy
Assistant Secretary for Management
and Chief Financial Officer



CONSOLIDATED BALANCE SHEETS

As of September 30, 2008 and 2007

(In Millions)

ASSETS**Intra-governmental Assets**

Fund Balance (Note 2)	\$ 275,368	\$ 74,767
Loans and Interest Receivable (Note 3)	264,854	236,932
Advances to the Black Lung Trust Fund (Note 4 and Note 26)	10,484	10,058
Due From the General Fund (Note 4)	10,100,763	9,052,624
Accounts Receivable and Related Interest (Note 10)	396	466
Other Intra-governmental Assets	13	32

Total Intra-governmental Assets

\$ 10,651,878	\$ 9,374,879
----------------------	---------------------

Cash, Foreign Currency, and Other Monetary Assets (Note 5)	387,270	92,330
Gold and Silver Reserves (Note 6)	11,062	11,062
Loans and Interest Receivable (Note 3)	172	175
Credit Program Receivables - Mortgage Backed Securities (Note 3)	3,385	0
Investments in Government Sponsored Enterprises (Note 4, Note 7, and Note 13)	7,032	0
Investments and Related Interest (Note 7)	10,576	10,074
Reserve Position in the International Monetary Fund (Note 8)	4,750	4,464
Investments in International Financial Institutions (Note 9)	5,546	5,521
Tax, Other, and Related Interest Receivables, Net (Note 10)	30,878	27,559
Inventory and Related Property, Net (Note 11)	698	638
Property, Plant, and Equipment, Net (Note 12)	2,077	2,086
Other Assets (Note 3)	1,714	19

Total Assets (Note 13)

\$ 11,117,038	\$ 9,528,807
----------------------	---------------------

Heritage Assets (Note 12)

LIABILITIES**Intra-governmental Liabilities**

Federal Debt and Interest Payable (Note 4 and Note 14)	\$ 4,262,414	\$ 3,974,788
Other Debt and Interest Payable (Note 14)	14,164	14,164
Due to the General Fund (Note 4, Note 5, and Note 22)	667,112	328,973
Other Intra-governmental Liabilities (Note 17)	345	329

Total Intra-governmental Liabilities

\$ 4,944,035	\$ 4,318,254
---------------------	---------------------

Federal Debt and Interest Payable (Note 4 and Note 14)	5,812,694	5,054,250
Certificates Issued to Federal Reserve Banks (Note 5)	2,200	2,200
Allocation of Special Drawing Rights (Note 5)	7,630	7,627
Gold Certificates Issued to Federal Reserve Banks (Note 6)	11,037	11,037
Refunds Payable (Note 4 and Note 21)	3,076	1,684
D.C. Pensions and Judiciary Retirement Actuarial Liability (Note 15)	8,803	8,992
Other Liabilities (Note 17, Note 24 and Note 25)	17,852	3,664

Total Liabilities

\$ 10,807,327	\$ 9,407,708
----------------------	---------------------

Commitments and Contingencies (Note 16, Note 24 and Note 26)

NET POSITION

Unexpended Appropriations: Earmarked Funds (Note 22)	\$ 200	\$ 200
Other Funds	271,768	72,117
Subtotal	271,968	72,317
Cumulative Results of Operations: Earmarked Funds (Note 22)	37,586	35,385
Other Funds	157	13,397
Subtotal	37,743	48,782

Total Net Position (Note 18)

\$ 309,711	\$ 121,099
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Total Liabilities and Net Position

\$ 11,117,038	\$ 9,528,807
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The accompanying notes are an integral part of these financial statements.



CONSOLIDATED STATEMENTS OF NET COST

For the Years Ended September 30, 2008 and 2007

(In Millions)

	2008	2007
Cost of Treasury Operations: (Note 19)		
Financial Program:		
Gross Cost	\$ 14,569	\$ 13,980
Less Earned Revenue	(2,282)	(2,245)
Net Program Cost	\$ 12,287	\$ 11,735
Economic Program:		
Gross Cost	\$ 5,339	\$ 5,660
Less Earned Revenue	(5,091)	(6,116)
Net Program Cost	\$ 248	\$ (456)
Security Program:		
Gross Cost	\$ 346	\$ 302
Less Earned Revenue	(4)	(2)
Net Program Cost	\$ 342	\$ 300
Management Program:		
Gross Cost	\$ 631	\$ 883
Less Earned Revenue	(165)	(443)
Net Program Cost	\$ 466	\$ 440
Total Program Gross Costs:	\$ 20,885	\$ 20,825
Total Program Gross Earned Revenues	(7,542)	(8,806)
Total Net Cost of Treasury Operations	\$ 13,343	\$ 12,019
GSE Costs (Entity) (Note 24)	\$ 13,800	\$ 0
Total Net Cost of Treasury Operations plus GSE	\$ 27,143	\$ 12,019
Federal Costs: (Note 19)		
Federal Debt Interest	\$ 453,347	\$ 432,153
Less Interest Revenue from Loans	(12,439)	(11,714)
Net Federal Debt Interest Costs	\$ 440,908	\$ 420,439
Other Federal Costs (Note 19)	\$ 8,332	\$ 8,863
Less GSE Revenue (non-Entity) (Note 24)	(7,032)	0
Net Federal Costs	\$ 442,208	\$ 429,302
Net Cost of Treasury Operations, GSE Cost, Federal Debt Interest, Other Federal Costs, and GSE Revenue	\$ 469,351	\$ 441,321

The accompanying notes are an integral part of these financial statements.



CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Year Ended September 30, 2008

(In Millions)

	Combined Earmarked Funds	Combined All Other Funds	Eliminations	Consolidated Total
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	\$ 35,385	\$ 13,397	\$ 0	\$ 48,782
Budgetary Financing Sources:				
Appropriations Used	458	481,277	0	481,735
Non-exchange Revenue	134	144	(24)	254
Donations and Forfeitures of Cash/Equivalent	159	0	0	159
Transfers In/Out Without Reimbursement	0	(10)	0	(10)
Other	38	(26)	0	12
Other Financing Sources (non-exchange)				
Donation/Forfeiture of Property	112	0	0	112
Accrued Interest and Discount on Debt	0	(3,870)	0	(3,870)
Transfers In/Out Without Reimbursement	(52)	31	0	(21)
Imputed Financing Sources	60	1,147	(478)	729
Transfers to the General Fund and Other (Note 18)	(23)	(20,765)	0	(20,788)
Total Financing Sources	886	457,928	(502)	458,312
Net Cost of Operations	1,315	(471,168)	502	(469,351)
Net Change	2,201	(13,240)	0	(11,039)
Cumulative Results of Operations	\$ 37,586	\$ 157	\$ 0	\$ 37,743
UNEXPENDED APPROPRIATIONS				
Beginning Balances	\$ 200	\$ 72,117	\$ 0	\$ 72,317
Budgetary Financing Sources:				
Appropriations Received (Note 18)	458	681,015	0	681,473
Appropriations Transferred In/Out	0	24	0	24
Other Adjustments	0	(111)	0	(111)
Appropriations Used	(458)	(481,277)	0	(481,735)
Total Budgetary Financing Sources	0	199,651	0	199,651
Total Unexpended Appropriations	\$ 200	\$ 271,768	\$ 0	\$ 271,968
Net Position	\$ 37,786	\$ 271,925	\$ 0	\$ 309,711

The accompanying notes are an integral part of these financial statements.



CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Year Ended September 30, 2007

(In Millions)

	Combined Earmarked Funds	Combined All Other Funds	Eliminations	Consolidated Total
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	\$ 31,614	\$ 15,030	\$ 0	\$ 46,644
Budgetary Financing Sources:				
Appropriations Used	390	446,667	0	447,057
Non-exchange Revenue	109	7	(43)	73
Donations and Forfeitures of Cash/Equivalent	210	0	0	210
Transfers In/Out without Reimbursement	0	(8)	0	(8)
Other	(1)	0	0	(1)
Other Financing Sources (non exchange)				
Donation/Forfeiture of Property	73	0	0	73
Accrued Interest and Discount on Debt	0	7,632	0	7,632
Transfers In/Out Without Reimbursement	(39)	15	0	(24)
Imputed Financing Sources	60	1,172	(492)	740
Transfers to the General Fund and Other (Note 18)	205	(12,498)	0	(12,293)
Total Financing Sources	1,007	442,987	(535)	443,459
Net Cost of Operations	2,764	(444,620)	535	(441,321)
Net Change	3,771	(1,633)	0	2,138
Cumulative Results of Operations	35,385	13,397	0	48,782
UNEXPENDED APPROPRIATIONS				
Beginning Balances	\$ 202	\$ 68,068	\$ 0	\$ 68,270
Budgetary Financing Sources:				
Appropriation Received (Note 18)	390	450,832	0	451,222
Appropriations Transferred In/Out	0	27	0	27
Other Adjustments	(2)	(143)	0	(145)
Appropriations Used	(390)	(446,667)	0	(447,057)
Total Budgetary Financing Sources	(2)	4,049	0	4,047
Total Unexpended Appropriations	\$ 200	\$ 72,117	\$ 0	\$ 72,317
Net Position	\$ 35,585	\$ 85,514	\$ 0	\$ 121,099

The accompanying notes are an integral part of these financial statements.



COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2008

(In Millions)

	Budgetary	Non-Budgetary Financing	Total
Budgetary Resources			
Unobligated balance, brought forward	\$ 57,450	\$ 0	\$ 57,450
Recoveries of prior year unpaid obligations	413	0	413
Budget authority:			
Appropriations <i>(Note 18)</i>	679,563	0	679,563
Borrowing authority	4	34,304	34,308
Spending Authority from Offsetting Collections			
Earned: Collected	8,705	335	9,040
Change in receivables from Federal sources	(32)	0	(32)
Change unfilled customer orders:			
Advance received	19	0	19
Without advance from Federal sources	(39)	0	(39)
Subtotal	688,220	34,639	722,859
Non-expenditure transfers, net	844	0	844
Temporarily not available pursuant to Public Law	(9)	0	(9)
Permanently not available	(4,626)	(4,767)	(9,393)
Total Budgetary Resources	\$ 742,292	\$ 29,872	\$ 772,164
Status of Budgetary Resources			
Obligations incurred <i>(Note 20)</i> : Direct	\$ 477,384	\$ 5,415	\$ 482,799
Reimbursable	4,735	0	4,735
Subtotal	482,119	5,415	487,534
Unobligated Balance: Apportioned	214,114	24,122	238,236
Exempt from apportionment	34,999	0	34,999
Subtotal	249,113	24,122	273,235
Unobligated balance not available	11,060	335	11,395
Total Status of Budgetary Resources	\$ 742,292	\$ 29,872	\$ 772,164
Change in Obligated Balance			
Obligated balance, net:			
Unpaid obligations brought forward, Oct. 1	\$ 57,811	\$ 0	\$ 57,811
Uncollected customer payments from Federal sources brought forward	(418)	0	(418)
Total unpaid obligated balance, net	57,393	0	57,393
Obligations incurred, net	482,119	5,415	487,534
Gross outlays	(482,199)	(5,409)	(487,608)
Recoveries of prior year unpaid obligations, actual	(413)	0	(413)
Change uncollected customer payments Federal source	71	0	71
Obligated balance, net, end of period:			
Unpaid obligations	57,318	6	57,324
Uncollected customer payments Federal sources	(347)	0	(347)
Total unpaid obligated balance, net, end of period	56,971	6	56,977
Net Outlays			
Gross outlays	482,199	5,409	487,608
Offsetting collections	(8,194)	(335)	(8,529)
Distributed offsetting receipts	(16,211)	0	(16,211)
Net Outlays	\$ 457,794	\$ 5,074	\$ 462,868

The accompanying notes are an integral part of these financial statements.



COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2007

(In Millions)

	Budgetary	Non-Budgetary Financing	Total
Budgetary Resources			
Unobligated balance, brought forward	\$ 57,540	\$ 0	\$ 57,540
Recoveries of prior year unpaid obligations	474	0	474
Budget authority:			
Appropriations <i>(Note 18)</i>	465,200	0	465,200
Borrowing authority	11	0	11
Spending Authority from Offsetting Collections			
Earned: Collected	9,937	0	9,937
Change in receivables from Federal sources	(66)	0	(66)
Change unfilled customer orders:			
Advance received	17	0	17
Without advance from Federal sources	(125)	0	(125)
Subtotal	474,974	0	474,974
Non-expenditure transfers, net	25	0	25
Temporarily not available pursuant to Public Law	90	0	90
Permanently not available	(10,123)	0	(10,123)
Total Budgetary Resources	\$ 522,980	\$ 0	\$ 522,980
Status of Budgetary Resources			
Obligations incurred <i>(Note 20)</i> : Direct	\$ 460,999	\$ 0	\$ 460,999
Reimbursable	4,531	0	4,531
Subtotal	465,530	0	465,530
Unobligated Balance: Apportioned	13,525	0	13,525
Exempt from apportionment	32,930	0	32,930
Subtotal	46,455	0	46,455
Unobligated balance not available	10,995	0	10,995
Total Status of Budgetary Resources	\$ 522,980	\$ 0	\$ 522,980
Change in Obligated Balance			
Obligated balance, net:			
Unpaid obligations brought forward, Oct. 1	\$ 53,057	\$ 0	\$ 53,057
Uncollected customer payments from Federal sources brought forward	(609)	0	(609)
Total unpaid obligated balance, net	52,448	0	52,448
Obligations incurred, net	465,530	0	465,530
Gross outlays	(460,302)	0	(460,302)
Recoveries of prior year unpaid obligations, actual	(474)	0	(474)
Change uncollected customer payments Federal source	191	0	191
Obligated balance, net, end of period:			
Unpaid obligations	57,811	0	57,811
Uncollected customer payments Federal sources	(418)	0	(418)
Total unpaid obligated balance, net, end of period	57,393	0	57,393
Net Outlays			
Gross outlays	460,302	0	460,302
Offsetting collections	(8,192)	0	(8,192)
Distributed offsetting receipts	(16,040)	0	(16,040)
Net Outlays	\$ 436,070	\$ 0	\$ 436,070

The accompanying notes are an integral part of these financial statements.



STATEMENTS OF CUSTODIAL ACTIVITY

For the Years Ended September 30, 2008 and 2007

(In Millions)

	2008	2007
Sources of Custodial Revenue (Note 21):		
Revenue Received		
Individual Income and FICA Taxes	\$ 2,294,326	\$ 2,201,464
Corporate Income Taxes	354,063	395,320
Estate and Gift Taxes	29,824	26,978
Excise Taxes	66,293	67,766
Railroad Retirement Taxes	4,939	4,718
Unemployment Taxes	7,331	7,416
Deposit of Earnings, Federal Reserve System	33,598	32,043
Fines, Penalties, Interest and Other Revenue	2,233	3,084
Total Revenue Received	\$ 2,792,607	\$ 2,738,789
Less Refunds	(426,074)	(292,684)
Net Revenue Received	\$ 2,366,533	\$ 2,446,105
Accrual Adjustment	3,132	5,588
Total Custodial Revenue	\$ 2,369,665	\$ 2,451,693
Disposition of Custodial Revenue:		
Amounts Provided to Fund Non-Federal Entities	407	486
Amounts Provided to Fund the Federal Government (Note 21)	2,366,126	2,445,619
Accrual Adjustment	3,132	5,588
Total Disposition of Custodial Revenue	\$ 2,369,665	\$ 2,451,693
Net Custodial Revenue	\$ 0	\$ 0

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The accompanying financial statements include the operations of the U.S. Department of the Treasury (Treasury Department), one of 24 CFO Act agencies of the Executive Branch of the United States Government, and certain custodial activities managed on behalf of the entire U.S. Government. The following paragraphs describe the activities of the reporting entity.

The Treasury Department was created by Act (1 Stat.65) on September 2, 1789. Many subsequent acts affected the development of the Treasury Department, delegating new duties to its charge and establishing the numerous bureaus and divisions that now comprise the Treasury Department. As a major policy advisor to the President, the Secretary has primary responsibility for formulating and managing the domestic and international tax and financial policies of the U.S. Government.

Further, the Secretary is responsible for recommending and implementing United States domestic and international economic and fiscal policy; governing the fiscal operations of the government; maintaining foreign assets control; managing the federal debt; collecting income and excise taxes; representing the United States on international monetary, trade, and investment issues; overseeing Departmental overseas operations; and directing the manufacturing of coins, currency, and other products for customer agencies and the public.

In September 2008, the Treasury Department began a number of emergency economic measures relating to the economy which involved various financing programs. Key initiatives effective for fiscal year 2008 involved programs concerning two Government Sponsored Enterprises (GSE), provision of a credit facility for GSEs and Federal Home Loan Banks, purchase of Mortgage Backed Securities, and setup of a Money Market Insurance Program (Notes 24 and 25).

The Treasury Department includes the Departmental Offices (DO) and nine operating bureaus. For financial reporting purposes, DO is comprised of: International Assistance Programs (IAP), Office of Inspector General (OIG), Treasury Forfeiture Fund (TFF), Exchange Stabilization Fund (ESF), Community Development Financial Institutions Fund (CDFI), Office of D.C. Pensions (DCP), Treasury Inspector General for Tax Administration (TIGTA), Federal Financing Bank (FFB), and the DO policy offices. In addition, the Air Transportation Stabilization Board (ATSB) was also part of the DO reporting entity for the year ended September 30, 2007. The ATSB was set up to administer the temporary emergency program to assist air carriers that were in need of funds as a result of the terrorist attacks on the United States that occurred on September 11, 2001. The ATSB program was terminated at September 30, 2007. To close out its remaining budgetary resources during fiscal year 2008, ATSB returned \$3.5 million of unexpended appropriations to the General Fund of the United States. In fiscal year 2008 the management of the Treasury Franchise Fund was transferred from the Departmental Offices (DO) to the Bureau of the Public Debt (BPD).

The nine operating bureaus are: Office of the Comptroller of the Currency (OCC); Bureau of Engraving and Printing (BEP); Financial Crimes Enforcement Network (FinCEN); Financial Management Service (FMS); Internal Revenue Service (IRS); U.S. Mint (Mint); Bureau of the Public Debt (BPD); Office of Thrift Supervision (OTS); and the Alcohol and Tobacco Tax and Trade Bureau (TTB).

The Treasury Department's financial statements reflect the reporting of its own entity activities, which include appropriations it receives to conduct its operations and revenue generated from those operations. They also reflect the

reporting of certain non-entity (custodial) functions it performs on behalf of the U.S. Government and others. Non-entity activities include collecting of federal revenue, servicing the federal debt, disbursing certain federal funds, and maintaining certain assets and liabilities for the U.S. Government, as well as for others. The Treasury Department's reporting entity does not include the "General Fund" of the U.S. Government, which maintains receipt, disbursement, and appropriation accounts for all federal agencies.

Transactions and balances among the Treasury Department's entities have been eliminated from the Consolidated Balance Sheets, the Consolidated Statements of Net Cost, and the Consolidated Statements of Changes in Net Position.

B. Basis of Accounting and Presentation

The financial statements have been prepared from the accounting records of the Treasury Department in conformity with accounting principles generally accepted in the United States for federal entities, and the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, as amended. Accounting principles generally accepted for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB). FASAB is recognized by the American Institute of Certified Public Accountants as the official accounting standards-setting body of the U.S. Government.

These financial statements are provided to meet the requirements of the Government Management Reform Act of 1994. They consist of the Consolidated Balance Sheets, the Consolidated Statements of Net Cost, and the Consolidated Statements of Changes in Net Position, the Combined Statements of Budgetary Resources, and the Statements of Custodial Activity. The statements and the related notes are prepared in a comparative form to present both fiscal year 2008 and fiscal year 2007 information.

While these financial statements have been prepared from the books and records of the Treasury Department in accordance with the formats prescribed by OMB, these financial statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

Throughout these financial statements, intra-governmental assets, liabilities, earned revenues, and costs have been classified according to the entity for these transactions. Intra-governmental assets and liabilities are those from or to other federal entities. Intra-governmental earned revenues are collections or accruals of revenue from other federal entities, and intra-governmental costs are payments or accruals of expenditure to other federal entities.

The financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

C. Tax and Other Non-Entity Receivables

Tax receivables are not accrued until related tax returns are filed or assessments are made. Prepayments of taxes are netted against liabilities. Accruals are made to reflect penalties and interest on tax receivables through the balance sheet date. Tax receivables consist of unpaid assessments (taxes and associated penalties and interest) due from taxpayers for which the Treasury Department can support the existence of a receivable through taxpayer agreement, such as filing a tax return without sufficient payment, or a court ruling in favor of the Treasury Department. Tax receivables are shown on the balance sheet net of an allowance for doubtful accounts and abatements. The allowance for doubtful accounts reflects an estimate of the portion deemed to be uncollectible based on historical experience of similar taxes receivable.

D. Inventory and Related Property

Inventories and related property include inventory, operating materials and supplies, and forfeited property. The Treasury Department values inventories at either standard cost or lower of cost or latest acquisition cost except for finished goods inventories, which are valued at weighted average unit cost. All operating materials and supplies are recorded as an expense when consumed in operations.

Forfeited property is recorded at estimated fair market value at the time of seizure as deferred revenue, and may be adjusted to reflect the current fair market value at the end of the fiscal year. Property forfeited in satisfaction of a taxpayer's assessed liability is recorded when title to the property passes to the U.S. Government and a corresponding credit is made to the related taxes receivable. Direct and indirect holding costs are not capitalized for individual forfeited assets.

Mortgages and claims on forfeited assets are recognized as a valuation allowance and a reduction of deferred revenue from forfeited assets when the asset is forfeited. The allowance includes mortgages and claims on forfeited property held for sale and a minimal amount of claims on forfeited property previously sold. Revenue from the forfeiture of property is deferred until the property is sold or transferred to a state, local or federal agency. Revenue is not recognized if the forfeited property is ultimately destroyed or cannot be legally sold.

E. Loans and Interest Receivable – Entity and Non-Entity

Intra-governmental entity Loans and Interest Receivable from other federal agencies represent loans and interest receivable held by the Treasury Department. No subsidy costs were recorded for loans purchased from federal agencies or for guaranteed loans made to non-federal borrowers, because these are guaranteed (interest and principal) by those agencies.

Intra-governmental non-entity Loans and Interest Receivable from other federal agencies represent loans issued by the Treasury Department to federal agencies on behalf of the U.S. Government. The Treasury Department acts as an intermediary issuing these loans, because the agencies receiving these loans will lend these funds to others to carry out various programs of the Federal Government. Because of the Treasury Department's intermediary role in issuing these loans, the Treasury Department does not record an allowance or subsidy costs related to these loans. Instead, loan loss allowances and subsidy costs are recognized by the ultimate lender, the federal agency that issued the loans.

F. Advances to the Black Lung Trust Fund

Advances have been provided to the Department of Labor's Black Lung Trust Fund from the General Fund of the U.S. Government. The Bureau of the Public Debt accounts for the advances on behalf of the General Fund of the U.S. Government. Advances to the Black Lung Trust Fund are being accounted for pursuant to the Benefits Revenue Act which states: "In the event that fund resources are not adequate to meet fund obligations, then, advances of interest and principal are paid to the General Fund of the U.S. Government when the Secretary of the Treasury determines that funds are available in the trust fund for such purposes." The advance to the Black Lung Trust Fund is repayable with interest at a rate determined by the Secretary of the Treasury to be equal to the current average market yield on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the anticipated period during which the advance will be outstanding. Advances made prior to 1982 carried rates of interest equal to the average rate borne by all marketable interest-bearing obligations of the United States then forming a part of the public debt.

These advances were retired on October 7, 2008, under the refinancing agreement authorized by the enactment of the Energy Improvement and Extension Act of 2008 on October 3, 2008. The Act gave authority to the Black Lung Disability Trust Fund to issue obligations to the Secretary of the Treasury and gave authority to the Secretary of the Treasury to purchase the obligations. The repayable advances were retired with the proceeds from these obligations as a one time appropriation to the Trust Fund (Note 26).

G. Property, Plant, and Equipment

Property, plant, and equipment (PP&E) is composed of capital assets used in providing goods or services. It also includes assets acquired through capital leases, which are initially recorded at the amount recognized as a liability for the capital lease at its inception. PP&E is stated at full cost, including costs related to acquisition, delivery, and installation, less accumulated depreciation. Major alterations and renovations including leasehold and land improvements are capitalized, while maintenance and repair costs are charged to expenses as incurred.

Internal use software encompasses software design, development, and testing of projects adding significant new functionality and long-term benefits. Costs for developing internal use software are accumulated in work in development until a project is placed into service, and testing and final acceptance are successfully completed. Once completed, the costs are transferred to depreciable property.

Costs for construction projects are recorded as construction-in-progress until completed, and are valued at actual (direct) cost, plus applied overhead and other indirect costs.

The Treasury Department leases land and buildings from the General Services Administration (GSA) to conduct most of its operations. GSA charges a standard level users fee which approximates commercial rental rates for similar properties. Therefore, GSA-owned properties are not included in the Department's PP&E.

The Treasury Department's bureaus are diverse both in size and in operating environment. Accordingly, the Department's capitalization policy provides minimum capitalization thresholds which range from \$25,000 to \$50,000. The Treasury Department also uses a capitalization threshold range for bulk purchases: \$250,000 to \$500,000 for non-manufacturing bureaus and \$25,000 to \$50,000 for manufacturing bureaus. Bureaus determine the individual items that comprise bulk purchases. In addition, Treasury bureaus may expense bulk purchases if they conclude that total period costs would not be materially distorted and the cost of capitalization is not economically feasible.

Depreciation is expensed on a straight-line basis over the estimated useful life of the asset with the exception of leasehold improvements, which are depreciated over the useful life of the lease or the useful life of the improvement, whichever is shorter. Service life ranges are high due to the Treasury Department's diversity of PP&E. Construction in progress and internal use software in development are not depreciated.

The Treasury Department owns the Treasury building — a multi-use heritage asset. Multi-use heritage assets are assets of historical significance for which the predominant use is general government operations. All acquisition, reconstruction, and betterment costs for the Treasury Department building are capitalized as general PP&E and depreciated over their service life.

H. Federal Debt

Debt and associated interest are reported on the accrual basis of accounting. Interest costs are recorded as expenses when incurred, instead of when paid. Certain Treasury securities are issued at a discount or premium. These discounts and premiums are amortized over the term of the security using an interest method for all long term securities and the straight line method for short term securities. The Department of the Treasury also issues Treasury Inflation-Protected Securities (TIPS). The principal for TIPS is adjusted daily over the life of the security based on the Consumer Price Index for all Urban Consumers.

I. Pension Costs, Other Retirement Benefits, and Other Post Employment Benefits

The Treasury Department recognizes the full costs of its employees' pension benefits. However, the liabilities associated with these costs are recognized by the Office of Personnel Management (OPM) rather than the Treasury Department.

Most employees of the Treasury Department hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), to which the Treasury Department contributes 8.51 percent of salaries for regular CSRS employees.

On January 1, 1987, the Federal Employees' Retirement System (FERS) went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, are automatically covered by FERS and Social Security. A primary feature of FERS is that it offers a savings plan to which the Treasury Department automatically contributes one percent of base pay and matches any employee contributions up to an additional four percent of base pay. For most employees hired after December 31, 1983, the Treasury Department also contributes the employer's matching share for Social Security. For the FERS basic benefit the Treasury Department contributes 11.2 percent for regular FERS employees.

Similar to federal retirement plans, OPM, rather than the Treasury Department, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) Program. The Treasury Department reports the full cost of providing other retirement benefits (ORB). The Treasury Department also recognizes an expense and liability for other post employment benefits (OPEB), which includes all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents. Additionally, the Treasury bureaus, OCC and OTS, separately sponsor certain benefit plans for their employees. OCC sponsors a defined life insurance benefit plan for current and retired employees. Additionally, OTS provides certain health and life benefits for all retired employees that meet eligibility requirements.

J. Special Drawing Rights (SDR) Certificates Issued to Federal Reserve Banks

The Exchange Stabilization Fund (ESF) was established for use by the Secretary of the Treasury to account for the purchase or sale of foreign currencies, to hold U.S. foreign exchange and Special Drawing Rights (SDR) assets, and to provide financing to foreign governments. SDR transactions of the ESF require the explicit authorization of the Secretary of the Treasury. The Special Drawing Rights Act of 1968 authorized the Secretary of the Treasury to issue certificates, not to exceed the value of SDR holdings, to the Federal Reserve Banks in return for interest free dollar amounts equal to the face value of certificates issued. The certificates may be issued to finance the acquisition of SDR from other countries or to provide resources for financing other ESF operations. Certificates issued are to be redeemed by the Treasury Department at such times and in such amounts as the Secretary of the Treasury may deter-

mine. Certificates issued to Federal Reserve Banks are stated at their face value. It is not practical to estimate the fair value of Certificates Issued to Federal Reserve Banks since these certificates contain no specific terms of repayment.

K. Federal Employee Benefits Payable - FECA Actuarial Liability

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, and employees who have incurred a work-related injury or occupational disease. These future workers' compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases.

L. Revenue and Financing Sources

Treasury Department activities are financed either through exchange revenue it receives from others or through non-exchange revenue and financing sources (such as appropriations provided by the Congress and penalties, fines, and certain user fees collected). User fees primarily include Internal Revenue Service reimbursable costs to process installment agreements and accompanying photocopy and reproduction charges. Exchange revenues are recognized when earned; *i.e.*, goods have been delivered or services have been rendered. Non-exchange revenues are recognized when received by the respective Treasury Department collecting bureau. Appropriations used are recognized as financing sources when related expenses are incurred or assets are purchased. Revenue from reimbursable agreements is recognized when the services are provided. The Treasury Department also incurs certain costs that are paid in total or in part by other federal entities, such as pension costs. These subsidized costs are recognized on the Consolidated Statement of Net Cost, and the imputed financing for these costs is recognized on the Consolidated Statement of Changes in Net Position. As a result, there is no effect on net position. Other non-exchange financing sources such as donations and transfers of assets without reimbursements also are recognized for the period in which they occurred on the Consolidated Statement of Changes in Net Position.

The Treasury Department recognizes revenue it receives from disposition of forfeited property as non-exchange revenue on the Consolidated Statement of Changes in Net Position. The costs related to the forfeiture fund program are reported on the Consolidated Statement of Net Cost.

M. Custodial Revenues and Collections

Non-entity revenue reported on the Treasury Department's Statement of Custodial Activity includes cash collected by the Treasury Department, primarily taxes. It does not include revenue collected by other federal agencies, such as user fees and other receipts, which are remitted for general operating purposes of the U.S. Government or are earmarked for certain trust funds. The Statements of Custodial Activity is presented on the "modified accrual basis." Revenues are recognized as cash is collected. The "accrual adjustment" is the net increase or decrease, during the reporting period, in net revenue related-assets and liabilities, mainly taxes receivable. The Balance Sheets include an estimated amount for taxes receivable and payable to the General Fund of the U.S. Government at September 30, 2008 and September 30, 2007.

N. Tax Assessments and Abatements

Under Internal Revenue Code Section 6201, the Treasury Department is authorized and required to make inquiries, determinations, and assessments of all taxes which have not been duly paid (including interest, additions to the tax, and assessable penalties) under the law. Unpaid assessments result from taxpayers filing returns without sufficient

payment, as well as from tax compliance programs, such as examination, under-reporter, substitute for return, and combined annual wage reporting. The Treasury Department also has authority to abate the paid or unpaid portion of an assessed tax, interest, and penalty. Abatements occur for a number of reasons and are a normal part of the tax administration process. Abatements may result in claims for refunds or a reduction of the unpaid assessed amount.

O. Permanent and Indefinite Appropriations

Permanent and indefinite appropriations are used to disburse tax refunds, income tax credits, and child tax credits. These appropriations are not subject to budgetary ceilings established by Congress. Therefore, refunds payable at year end are not subject to funding restrictions. Refund payment funding is recognized as appropriations are used. Permanent indefinite authority for refund activity is not stated as a specific amount and is available for an indefinite period of time. Although funded through appropriations, refund activity, in most instances, is reported as a custodial activity of the Treasury Department, since refunds are, in substance, a custodial revenue-related activity resulting from taxpayer overpayments of their tax liabilities.

The Treasury Department also receives two permanent and indefinite appropriations related to debt activity. One is used to pay interest on the public debt securities; the other is used to redeem securities that have matured, been called, or are eligible for early redemption. These accounts are not annual appropriations; and do not have refunds. Debt activity appropriations are related to the Treasury Department's liability and would be reported on the Treasury Department's Balance Sheet. Permanent indefinite authority for debt activity is available for an indefinite period of time.

Additionally, the Treasury Department receives other permanent and indefinite appropriations to make certain payments on behalf of the U.S. Government. These appropriations are provided to make payments to the Federal Reserve for services provided. They also include appropriations provided to make other disbursements on behalf of the U.S. Government, including payments made to various parties as the result of certain claims and judgments rendered against the United States.

P. Income Taxes

As an agency of the Federal Government, the Treasury Department is exempt from all income taxes imposed by any governing body, whether it is a federal, state, commonwealth, local, or foreign government.

Q. Use of Estimates

The Treasury Department has made certain estimates and assumptions relating to the reporting of assets, liabilities, revenues, expenses, and the disclosure of contingent liabilities to prepare these financial statements. Actual results could differ from these estimates. Major items subject to estimates include loan receivables (including Mortgage Backed Securities); investments in non-federal securities (including Freddie Mac and Fannie Mae); taxes receivables; depreciation; money market insurance liability; liability for liquidity commitment (Freddie Mac and Fannie Mae); imputed costs; actuarial liabilities; cost and earned revenue allocations; contingent legal liabilities; and credit reform subsidy costs (Notes 3 and 24).

The Treasury recognizes the sensitivity of credit reform modeling to slight changes in some model assumptions and uses continual review of model factors, statistical modeling, and annual re-estimates to reflect the most accurate cost of the credit programs to the U.S. Government. Two of the emergency economic programs that Treasury implemented in the latter part of September 2008, the purchase program for Mortgage Backed Securities (MBS) and the Government

Sponsored Enterprise credit line facility, both operate under the provisions of credit reform and the use of estimates as dictated by the Federal Credit Reform Act (Notes 3 and 24). Further, the assumptions underlying the estimated future liquidity payments to the GSE's are subject to a high level of market volatility, such that actual future payments may differ significantly from current estimates due to changing circumstances. The Troubled Asset Relief Program described further in subsequent event Note 26 will also require the use of sophisticated estimates.

The Treasury used the following methodologies for valuation of the investment in GSE:

Common Stock Warrants: The Black-Scholes Option Model (1973) was used to affirm that the value of the warrants is insensitive to the usual option input variables, including time to expiration and stock volatility, and that the value per warrant share is nominally less than the trading price at September 30, 2008.

Senior Preferred Stock: These shares were valued based on an interpolation of market prices during the five trading days prior to the announcement of the Keepwell Agreement for (i) Fannie Mae and Freddie Mac subordinated debt, as adjusted for the tax advantages of stock dividends compared with taxable interest, and (ii) Fannie Mae and Freddie Mac preferred stock.

R. Credit Risk

Credit risk is the potential, no matter how remote, for financial loss from a failure of a borrower or a counter party to perform in accordance with underlying contractual obligations. The Treasury Department takes on possible credit risk when it makes direct loans or credits to foreign entities or becomes exposed to institutions which engage in financial transactions with foreign countries. Given the history of the Treasury Department with respect to such exposure and the financial policies in place in the U. S. Government and other institutions in which the United States participates, the Treasury Department expectations of credit losses is nominal.

The Treasury Department also takes on credit risk related to committed but undisbursed direct loans, its liquidity commitment to Government Sponsored Enterprises, its mortgage-backed securities portfolio, its insurance of non-FDIC insured money market funds, and its Terrorism Risk Insurance Program. Except for the Terrorism Risk Insurance Program, these activities focus on the underlying problems in the credit markets, and the ongoing turbulence in those markets exposes the Department to potential costs and losses. The extent of the risk assumed by the Treasury Department is described in more detail in the notes to the financial statements, and where applicable factored into credit reform models.

S. Earmarked Funds

Treasury has accounted for revenues and other financing sources for earmarked funds separately from other funds. This method was adopted in accordance with the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards (SFFAS) No. 27, *Identifying and Reporting Earmarked Funds*, which became effective October 1, 2007. This standard amended SFFAS No. 7, *Revenue and Other Financing Sources*, by:

- Elaborating the special accountability needs associated with dedicated collections;
- Separating dedicated collections into two categories – earmarked funds and fiduciary activity; and
- Defining, and providing accounting and reporting guidance for earmarked funds.

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities or purposes. SFFAS No. 27 defines the following three criteria for deter-

mining an earmarked fund: (1) A statute committing the Federal Government to use specifically identified revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; (2) Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and (3) A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguished the earmarked fund from the Federal Government's general revenues.

T. Allocation Transfers

The Treasury Department is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent. Beginning in fiscal year 2007, parent federal agencies report both the proprietary and budgetary activity and the child agency does not report any financial activity related to budget authority allocated from the parent federal agency to the child federal agency. The Treasury Department had no significant allocation transfers to report in fiscal years 2008 and 2007.

The Treasury Department allocates funds, as the parent, to the Department of Energy. OMB allows certain exceptions to allocation reporting for certain funds. Accordingly, the Treasury Department has reported certain funds for which the Treasury Department is the child in the allocation transfer, but in compliance with OMB Circular No. A-136 (see II.4.2 question 5 for three exceptions), will report all activities relative to these allocation transfers in the Treasury Department's financial statements. The Treasury Department receives allocation transfers, as the child, from the Agency for International Development.

U. Credit Reform Accounting

The authoritative guidance for the credit reform portion of these statements are contained primarily in SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees*, as amended by SFFAS No. 18, *Amendments to Accounting Standards for Direct Loans and Loan Guarantees*, SFFAS No. 19, *Technical Amendments to Accounting Standards for Direct Loans and Loan Guarantees*. This guidance was promulgated as a result of the Federal Credit Reform Act (FCRA) of 1990.

The FCRA requires that the ultimate costs of a credit program be calculated, and the budgetary resources obtained, before the direct loan obligations are incurred. The cost of loan guarantee programs is the net present value of the estimated future cash flows from payments (for claims, interest rate subsidies). The primary purpose of the FCRA, which became effective on October 1, 1991, is to more accurately measure the cost of federal credit programs and to place the cost of such credit programs on a basis equivalent with other federal spending.

SFFAS No. 2, which generally mirrors the requirements of the FCRA, established guidance for estimating the cost of direct and guaranteed loan programs, as well as for recording direct loans and liability for loan guarantees for financial reporting purposes. SFFAS No. 2 states that the actual and expected costs of federal credit programs should be fully recognized in both budgetary and financial reporting. To accomplish this, agencies first predict or estimate the future performance of direct and guaranteed loans when preparing their annual budgets. The data used for these budgetary estimates are re-estimated after the fiscal year-end to reflect changes in actual loan performance and actual interest

rates in effect when the loans were issued. The re-estimate data are then used to report the cost of the loans disbursed under the direct or guaranteed loan program as a “Program Cost” in the agencies’ Statement of Net Cost.

The FCRA establishes budgetary and financing control for each credit program through the use of the program, financing and negative subsidy receipt accounts for direct loans obligated after September 30, 1991. The FCRA establishes the use of the program, financing, and general fund receipt for direct loans obligated after September 30, 1991 (Credit Reform). These accounts are classified as either budgetary or non-budgetary in the Combined Statements of Budgetary Resources. The budgetary accounts include the program accounts and receipt accounts. The non-budgetary accounts consist of the credit reform financing accounts.

The program account is a budget account that receives and obligates appropriations to cover the subsidy cost of a direct loan or guarantee and disburses the subsidy cost to the financing account. The program account also receives appropriations for administrative expenses. The financing account is a non-budgetary account that records all of the cash flows resulting from Credit Reform direct loans or loan guarantees. It disburses loans, collects repayments and fees, makes claim payments, holds balances, borrows from U.S. Treasury Bureau of the Public Debt, earns or pays interest, and receives the subsidy cost payment from the program account.

The general fund receipt account is a budget account used for the receipt of amounts paid from the financing account when there is a negative subsidy from the original estimate or a downward re-estimate. In most cases, the receipt account is a general fund receipt account and amounts are not earmarked for the credit program. They are available for appropriations only in the sense that all general fund receipts are available for appropriations. Any assets in this account are non-entity assets and are offset by intragovernmental liabilities. At the beginning of the following fiscal year, the fund balance in the general fund receipt account is transferred to the U.S. Government General Fund.

V. Investments

Treasury records investments in non-federal financial securities at acquisition cost at the date of purchases in accordance with OMB A-136. Disclosure of market values are made as of year end and any permanent impairment is recorded.

2. FUND BALANCE

Fund Balance with Treasury is the aggregate amount of the Treasury Department's accounts with the U.S. Government's central accounts from which the Treasury Department is authorized to make expenditures and pay liabilities. It is an asset because it represents the Treasury Department's claim to the U.S. Government's resources. Fund balance with Treasury is not equivalent to unexpended appropriations, because it also includes non-appropriated revolving and enterprise funds, suspense accounts, and custodial funds such as deposit funds, special funds, and trust funds.

Fund Balances: As of September 30, 2008 and September 30, 2007, fund balances consisted of the following (in millions):

	2008	2007
Appropriated Funds (see Note 24)	\$ 272,561	\$ 72,897
Revolving Funds	1,837	912
Trust Funds	2	8
Clearing Funds	26	10
Deposit Funds	587	542
Special Funds	299	395
Other Funds (Receipts and Suspense Funds)	56	3
Total Fund Balances	\$ 275,368	\$ 74,767

As of September 30, 2008 and September 30, 2007, the status of fund balances consisted of the following (in millions):

Status of Fund Balance with Treasury	2008	2007
Unobligated Balance – Available (see Note 24)	\$ 242,939	\$ 17,843
Unobligated Balance – Unavailable	11,395	10,995
Obligated Balance not yet Disbursed	56,868	57,310
Subtotal	\$ 311,202	\$ 86,148
Adjustment for Non-Budgetary Funds	669	556
Adjustment for Borrowing Authority	(29,810)	(5,716)
Adjustment for Intra-Treasury Investments	(5,530)	(5,280)
Adjustment for Imprest Funds	(4)	(4)
Adjustment for Other Budgetary Resources Not in Fund		
Balance – Cash and Other Assets	(4,838)	(4,616)
Authority Unavailable for Obligation	3,679	3,679
Total Status of Fund Balance	\$ 275,368	\$ 74,767

For ESF, the above balances only include unobligated balances related to the ESF insurance program that began in fiscal year 2008. Otherwise, ESF does not have Fund Balance with Treasury. Accordingly, while other ESF balances are included on the Statement of Budgetary Resources (SBR), they are not a component of Fund Balance with Treasury. The ESF balances displayed on the SBR include components of cash, foreign currency, and other monetary assets (Note 5).

As of September 30, 2008 and September 30, 2007, the Treasury Department did not have any budgetary authority in Fund Balance with Treasury that was specifically withheld from apportionment by OMB. The balances in non-entity funds, such as deposit funds, are being held in a fiduciary capacity by the Treasury Department for the public or for another federal entity, such as the General Fund of the U.S. Government. Such funds have an offsetting liability equal to fund balance. See Note 8 regarding restrictions related to the line of credit held on the U.S. Quota in the International Monetary Fund.



3. LOANS, INTEREST RECEIVABLE AND CREDIT PROGRAM RECEIVABLES - MORTGAGE BACKED SECURITIES

Loans and Interest Receivable:

As of September 30, 2008 and September 30, 2007, intra-governmental loans (issued by the FFB) and interest receivable consisted of the following (in millions):

Entity Intra-governmental:

	Loans Receivable	Interest Receivable	2008 Total	Loans Receivable	Interest Receivable	2007 Total
Executive Office of the President	\$ 680	\$ 8	\$ 688	\$ 836	\$ 9	\$ 845
Department of Agriculture	26,326	50	26,376	25,604	300	25,904
United States Postal Service	7,200	1	7,201	4,200	3	4,203
General Services Administration	2,098	37	2,135	2,151	38	2,189
Department of Housing and Urban Development	691	84	775	791	96	887
Department of Education	338	3	341	315	4	319
Department of Defense	17	0	17	70	1	71
National Credit Union Administration	1,109	0	1,109	0	0	0
Other Agencies	18	0	18	25	1	26
Subtotal-Entity	\$ 38,477	\$ 183	\$ 38,660	\$ 33,992	\$ 452	\$ 34,444

The FFB issues the above loans to federal agencies for their own use or to private sector borrowers, whose loans are guaranteed by the federal agencies. When a federal agency has to honor its guarantee because a private sector borrower defaults, the federal agency that guaranteed the loan must obtain an appropriation or use other resources to repay the FFB. Loan principal and interest are backed by the full faith and credit of the U.S. Government, except for loans to the U.S. Postal Service. The FFB has not incurred and does not expect to incur any credit-related losses on its loans and accordingly, has not recorded an allowance for uncollectable intra-governmental loans.

Non-Entity Intra-governmental:

	Loans Receivable	Interest Receivable	2008 Total	Loans Receivable	Interest Receivable	2007 Total
Department of Agriculture	\$ 51,192	\$ 9	\$ 51,201	\$ 49,133	\$ 64	\$ 49,197
Department of the Interior	323	393	716	345	513	858
Federal Communications Commission	113	0	113	106	0	106
Department of Veterans Affairs	1,575	0	1,575	1,047	27	1,074
Railroad Retirement Board	3,096	69	3,165	2,945	73	3,018
Small Business Administration	9,463	0	9,463	11,366	0	11,366
Department of Housing and Urban Development	4,832	0	4,832	4,573	0	4,573
Department of Energy	2,186	20	2,206	2,241	(8)	2,233
Department of Education	128,331	0	128,331	103,973	0	103,973
Export Import Bank of the U. S.	2,929	0	2,929	4,364	0	4,364
Department of Homeland Security	17,360	359	17,719	17,787	367	18,154
Other Agencies	3,944	0	3,944	3,545	27	3,572
Subtotal Non-Entity	\$ 225,344	\$ 850	\$ 226,194	\$ 201,425	\$ 1,063	\$ 202,488
Total Intra-governmental Loans and Interest Receivable Entity and Non-Entity			\$ 264,854			\$ 236,932

BPD accounts for and reports on the principal borrowings from and repayments to the General Fund of the United States for approximately 80 funds managed by other federal agencies, as well as the related interest due to the General Fund. These agencies are statutorily authorized to borrow from the General Fund, through BPD, to make loans for a broad range of purposes, such as education, housing, farming, and small business support.

Entity and Non-Entity Non-Federal:

As of September 30, 2008 and September 30, 2007, loans and interest receivable from non-federal entities consisted of the following (in millions):

	Entity	Non-entity	2008 Total	Entity	Non-entity	2007 Total
Direct Loans	\$ 62	\$ 128	\$ 190	\$ 63	\$ 131	\$ 194
Interest Receivable	0	2	2	1	2	3
Less: Allowance and Subsidy Cost	(20)	0	(20)	(22)	0	(22)
Total Non-Federal Loans and Related Interest Receivable	\$ 42	\$ 130	\$ 172	\$ 42	\$ 133	\$ 175

Other amounts include certain loans and credits issued by the United States to various foreign governments. The agreements with each debtor government vary as to dates, interest rates, method of payment, and billing procedures. All such loans and credits represent legally valid and outstanding obligations of foreign governments, and the U.S. Government has not waived or renounced its rights with respect to any of them. The loans are due and payable in U.S. denominations.

Credit Program Receivables

In fiscal year 2008, the Treasury Department began a program to support the availability of mortgage financing for millions of Americans and to mitigate pressures on mortgage rates. Under this program, Treasury purchases GSE MBS in the open market (note 24). This program is accounted for under credit reform accounting.

MBS Purchase Program:

Congress granted Treasury authority to purchase mortgage-backed securities (MBS) issued by Government Sponsored Enterprises (GSEs) in the Housing and Economic Recovery Act of 2008. The authority expires on December 31, 2009. To promote stability in the mortgage market, Treasury's makes MBS purchases in the open market. GSE MBS are credit-guaranteed by the GSEs and Treasury plans to hold its portfolio of MBS to maturity unless, based on mortgage market conditions, sales are necessary. This program was implemented to help improve the availability of mortgage credit to American homebuyers and mitigate pressures on mortgage rates. By purchasing these securities, Treasury seeks to broaden access to mortgage funding for current and prospective homeowners as well as to promote market stability. The scale of the program will be based on developments in the capital markets and housing markets.

The MBS program is accounted for under the provisions of the Federal Credit Reform Act, section 13201 of the Omnibus Budget Reconciliation Act of 1990, P.L. No. 101-508, dated November 5, 1990. Treasury develops subsidy estimates, re-estimates, and rates based on anticipated cash flows from the purchases of MBS. Factors that impact these cash flows and the subsidy rate include the interest coupons on the securities, the discount or premium paid at the time of purchase, the speed of mortgage prepayments, and the probability of GSE failure. A positive subsidy reflects the cost to the Government of the program and a negative subsidy reflects earnings on the program. The

fiscal year 2008 GSE MBS subsidy rate was negative, indicating Treasury expects to earn a return on its investments in these securities.

As of September 30, 2008, the Treasury agent responsible for MBS purchases was in receipt of \$1,689 million that was recorded as an advance which accounts for the increase, in other assets, in fiscal year 2008 to \$1,714 million. This amount was to purchase MBS, however, the purchases were not made until after September 30, 2008.

GSE Credit Facility program:

Congress granted Treasury authority to make credit available to GSE in the Housing and Economic Recovery Act of 2008. The GSE credit facility program (GSECF) will offer liquidity if needed until December 31, 2009. This will ensure credit availability to the GSEs and provide secured funding on an as needed basis under terms and conditions established by the Treasury Secretary to protect taxpayers. Fannie Mae, Freddie Mac, and the Federal Home Loan Banks are eligible to borrow under this program if needed. Funding will be provided directly by Treasury in exchange for eligible collateral from the GSEs which will be limited to guaranteed mortgage-backed securities issued by Freddie Mac and Fannie Mae as well as advances made by the Federal Home Loan Banks. All such assets pledged against loans will be accepted with appropriate collateral margins as determined by Treasury. Loan requests will require approval from Treasury and verification that adequate collateral has been pledged.

The GSECF program is accounted for under the provisions of the Federal Credit Reform Act, section 13201 of the Omnibus Budget Reconciliation Act of 1990, P.L. No. 101-508, dated November 5, 1990. Treasury develops subsidy estimates, re-estimates, and rates based on anticipated cash flows from the credit facility. Factors that impact these cash flows and the subsidy rate include the interest rate on loans and the probability of GSE failure. A positive subsidy reflects the cost to the Government of the program and a negative subsidy reflects earnings on the program. The GSECF was not utilized in fiscal year 2008 and no loans were made.

Direct MBS Purchase Program and GSE Credit Facility Obligated (*in millions*):

Programs	Loan Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loan
MBS	\$ 3,311	\$ 0	\$ 0	\$ 74	\$ 3,385
Credit Facility	0	0	0	0	0
Total Obligated	\$ 3,311	\$ 0	\$ 0	\$ 74	\$ 3,385

Total amount of MBS purchases and GSE Credit Facility Disbursed (*in millions*):

Programs	Current Year
MBS	\$ 3,311
Credit Facility	0
Total Obligated	\$ 3,311

Subsidy Expense Fiscal Year 2008 (in millions):

Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Total
MBS	\$ (62)	\$ 8	\$ 0	\$ 0	\$ (54)
Credit Facility	0	0	0	0	0
Total Subsidy Expense	\$ (62)	\$ 8	\$ 0	\$ 0	\$ (54)

Total MBS Purchases and GSE Credit Facility Subsidy Expense (in millions):

Programs	Fiscal Year 2008
MBS	\$ (54)
Credit Facility	0
Total	\$ (54)

Subsidy Rates for MBS Purchases and GSE Credit Facility, Budget subsidy rates for programs in the current year cohorts (in dollars):

Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Total
MBS, Cohort 2008	\$ (1.86)	\$ 0.24	\$ 0	\$ 0	\$ (1.62)
Credit Facility	0	0	0	0	0
Total Subsidy rates	\$ (1.86)	\$ 0.24	\$ 0	\$ 0	\$ (1.62)

Schedule for Reconciling Subsidy Cost Allowance Balances (in millions):

	2008
Beginning Balances, Changes, and Ending Balance	
Beginning Balance of the subsidy cost allowance	\$ 0
Add: subsidy expense for disbursements:	
(a) Interest rate differential cost	(62)
(b) Default Costs (net of recoveries)	8
(c) Fees and other collections	0
(d) Other subsidy costs	0
Total of the above subsidy expense components	(54)
Adjustments:	
(a) Loan Modifications	0
(b) Fees received	0
(c) Foreclosed property acquired	0
(d) Loans written off	0
(e) Subsidy allowance amortized	(20)
Ending Balance subsidy cost allowance before re-estimates	(74)
Add or subtract subsidy re-estimates by component:	
(a) Interest rate re-estimate	0
(b) Technical default re-estimate	0
Total of the above re-estimate components	0
Ending balance of the subsidy cost allowance	\$ (74)

4. DUE FROM THE GENERAL FUND AND DUE TO THE GENERAL FUND

The Treasury Department is responsible for managing various assets and liabilities on behalf of the U.S. Government as a whole. Due from the General Fund represents amounts required to fund liabilities managed by Treasury on behalf of the U.S. Government. Liabilities managed by the Treasury Department are comprised primarily of the federal debt. Due to the General Fund represents assets held for the General Fund of the U.S. Government.

As of September 30, 2008 and September 30, 2007, Due from and Due to the General Fund, included the following non-entity assets and liabilities (in millions):

Liabilities Requiring Funding from the General Fund:	2008	2007
Federal Debt and Interest Payable	\$ 5,812,694	\$ 5,054,250
Federal Debt and Interest Payable - Intra-governmental	4,262,414	3,974,788
Refunds Payable	3,076	1,684
Adjustment for Eliminated Liabilities	22,579	21,902
Total Due from the General Fund	\$ 10,100,763	\$ 9,052,624
Assets to be Distributed to the General Fund:		
Fund Balance	\$ 215	\$ 222
Advances to the Black Lung Trust Fund	10,484	10,058
Cash Held by the Treasury (Note 5)	364,594	70,347
Foreign Currency	31	91
Custodial Gold and Silver held by the U.S. Mint without certificates	25	25
Loans and Interest Receivable - Intra-governmental	226,194	202,488
Loans and Interest Receivable	130	133
Investments in GSEs (Note 24)	7,032	0
Accounts Receivable - Intra-governmental	372	368
Tax and Other Non-Entity Receivables	30,489	27,395
Miscellaneous Assets	12	9
Adjustment for Eliminated Assets	27,534	17,837
Total Due to the General Fund	\$ 667,112	\$ 328,973

The Adjustment for Eliminated Intra-Treasury liabilities mainly represents investments in U.S. Government securities held by Treasury reporting entities that were eliminated against Federal Debt and Interest Payable. The Adjustment for Eliminated Intra-Treasury assets mainly represents loans and interest payable owed by reporting entities that are consolidated with Treasury, which were eliminated against Loans and Interest Receivable held by the Bureau of the Public Debt.

On the Balance Sheet, Treasury reported \$30,878 million in Tax, Other, and Related Interest Receivables as of September 30, 2008 (\$27,559 million as of September 30, 2007). However, only \$30,489 million is reported as Due to the General Fund of the U.S. Government (\$27,395 million as of September 30, 2007). The difference is attributable to the exclusion of amounts which will be paid to others outside the U.S. Government, and miscellaneous entity receivables (Note 10).

5. CASH, FOREIGN CURRENCY, AND OTHER MONETARY ASSETS

Cash, foreign currency, and other monetary assets held as of September 30, 2008 and September 30, 2007 were as follows (in millions):

Entity:	2008	2007
Cash	\$ 19	\$ 32
Foreign Currency	12,758	12,081
Other Monetary Assets:		
Special Drawing Rights	9,464	9,363
Other	88	153
Subtotal - Entity	\$ 22,329	\$ 21,629
Non-Entity:		
Operating Cash of the U.S. Government (see Note 24)	\$ 364,273	\$ 69,701
Foreign Currency	31	91
Miscellaneous Cash held by all Treasury sub-components	637	909
Subtotal - Non-Entity	\$ 364,941	\$ 70,701
Total Cash, Foreign Currency, and Other Monetary Assets	\$ 387,270	\$ 92,330

Non-entity Operating Cash and Other Cash of the U.S. Government held by Treasury disclosed above consisted of the following (in millions):

	2008	2007
Operating Cash of the U.S. Government	\$ 39,209	\$ 69,797
Operating Cash - Federal Reserve Account (see Note 24)	332,480	5,539
Subtotal	\$ 371,689	\$ 75,336
Outstanding Checks	(7,416)	(5,635)
Total Operating Cash of the U.S. Government	364,273	69,701
Other Cash	386	700
Subtotal	364,659	70,401
Amounts Due to the Public	(65)	(54)
Total Cash Due to the General Fund (See Note 4)	\$ 364,594	\$ 70,347

Entity

Entity cash, foreign currency, and other monetary assets primarily include Foreign Currency Denominated Assets (FCDA), Special Drawing Rights (SDR), and forfeited cash. SDR and FCDA are valued as of September 30, 2008 and September 30, 2007, using current exchange rates plus accrued interest, at September 30, 2008 and 2007. "Other" includes U.S. dollars restricted for use by the International Monetary Fund (IMF), which are maintained in two accounts at the Federal Reserve Bank of New York.

The foreign currency holdings are normally invested in interest bearing securities issued by or held through foreign governments or monetary authorities. FCDA with original maturities of three months or less, were valued at \$9.3 billion as of September 30, 2008 (\$7.6 billion as of September 30, 2007). Other FCDA with maturities greater than three months are also held. As of September 30, 2008, FCDA with maturities greater than three months were valued at \$3.5 billion (\$4.5 billion as of September 30, 2007).

The SDR are international reserve assets created by the IMF. It was created as a supplement to existing reserve assets and on several occasions SDR have been allocated by the IMF to members participating in the IMF's SDR department. The SDR value as reserve assets derive, essentially, from the commitments of participants to hold and accept SDR and to honor various obligations connected with their proper functioning as a reserve asset.

The Special Drawing Rights Act of 1968 authorizes the Secretary of the Treasury to issue certificates, not to exceed the value of SDR holdings, to the Federal Reserve Bank in return for interest free dollar amounts equal to the face value of certificates issued. The certificates may be issued for the purpose of financing the acquisition of SDR from other countries or to provide resources for the financing of the Treasury Department's ESF activities. Certificates issued are to be redeemed by the Treasury Department at such times and in such amounts as the Secretary of the Treasury may determine. As of September 30, 2008, the value of the certificates issued to Federal Reserve Banks amounted to \$2.2 billion (\$2.2 billion as of September 30, 2007).

On a daily basis, the IMF calculates the value of the SDR using the market value, in terms of the U.S. dollar, from the amounts of each of four freely usable weighted currencies, as defined by the IMF. These currencies are the U.S. dollar, the European euro, the Japanese yen, and the British pound sterling. Treasury's SDR holdings (assets resulting from various SDR related activities including remuneration received on interest earned on the U.S. reserve position – see Note 8) and allocations from the IMF (liabilities of the U.S. coming due only in the event of a liquidation of, or U.S. withdrawal from the SDR department of the IMF, or cancellation of SDR) are revalued monthly based on the SDR valuation rate calculated by the IMF.

Pursuant to the IMF Articles of Agreement, SDR allocated to or otherwise acquired by the United States are permanent resources unless:

- a. canceled by the Board of Governors based on an 85 percent majority decision of the total voting power of the Executive Board of the IMF
- b. the SDR Department of the IMF is liquidated
- c. the IMF is liquidated or
- d. the United States chooses to withdraw from the IMF or terminate its participation in the SDR Department.

Except for the payment of interest and charges on SDR allocations to the United States, the payment of the Treasury Department's commitment related to SDR allocations is conditional on events listed above, in which the United States has a substantial or controlling voice. Allocations of SDR were made on January 1, 1970, 1971, 1972, 1979, 1980, and 1981. Since 1981, the IMF has made no further allocations of SDR. As of September 30, 2008, the amount of SDR holdings of the United States was the equivalent of \$ 9.4 billion and the amount of SDR allocations to the United States was the equivalent of \$ 7.6 billion. As of September 30, 2007, the amount of SDR holdings of the United States was the equivalent of \$ 9.3 billion and the amount of SDR allocations to the United States was the equivalent of \$7.6 billion.

During fiscal year 2008, the Treasury Department received remuneration on the U.S. reserve position in the IMF, at the prevailing rates, in the amount of \$59 million equivalent of SDR (\$107 million equivalent of SDR during fiscal year 2007), and paid the General Fund of the Federal Government \$0.01 million (\$0.5 million in fiscal year 2007) in interest on these funds until they were transferred to the General Fund.

Non-Entity

Non-entity cash, foreign currency, and other monetary assets include the Operating Cash of the U.S. Government, managed by the Treasury Department. Also included is foreign currency maintained by various U.S. and military disbursing offices. It also includes seized monetary instruments, undistributed cash, and offers in compromises which are maintained as the result of the Treasury Department's tax collecting responsibilities.

The Operating Cash of the U.S. Government represents balances from tax collections, other revenues, federal debt receipts, and other various receipts net of checks outstanding, which are held in the Federal Reserve Banks, foreign and domestic financial institutions, and in U.S. Treasury tax and loan accounts at commercial banks.

On September 18, 2008, the BPD began issuing specific cash management bills to fund the Supplementary Financing Program (SFP). The SFP is a temporary program that was announced by the Treasury Department and the Federal Reserve on September 17, 2008. The purpose of the program is to provide emergency cash for the Federal Reserve initiatives aimed at addressing the ongoing crisis in financial markets. As of September 30, 2008, there were a total of eight cash management bills outstanding that totaled \$300 billion (Notes 14, 24, and 25).

Operating Cash of the U.S. Government is either insured (for balances up to \$100,000), as of September 30, 2008, by the Federal Deposit Insurance Corporation (FDIC) or collateralized by securities pledged by the depository institutions and held by the Federal Reserve Banks, or through securities held under reverse repurchase agreements.

6. GOLD AND SILVER RESERVES, AND GOLD CERTIFICATES ISSUED TO FEDERAL RESERVE BANKS

The Treasury Department is responsible for safeguarding most of the U.S. Government's gold and silver reserves in accordance with 31 USC 5117. The consolidated Balance Sheets also reflect the value of the gold being held in the Federal Reserve Bank of New York (FRBNY).

Gold reserves being held by the Treasury Department are offset by a liability for gold certificates issued by the Secretary of the Treasury to the Federal Reserve as provided in 31 USC 5117. Since 1934, Gold Certificates have been issued in non-definitive or book-entry form to the Federal Reserve. The Treasury Department's liability incurred by issuing the Gold Certificates is limited to the gold being held by the Treasury Department at the legal standard value established by law. Upon issuance of Gold Certificates to the Federal Reserve, the proceeds from the certificates are deposited into the operating cash of the U.S. Government. All of the Treasury Department's certificates issued are payable to the Federal Reserve.

The deep storage gold and silver reserves are reported at the values stated in 31 U. S. C. § 5116 and § 5117 (statutory rates) which are \$42.2222 per fine troy ounce (FTO) of gold and no less than \$1.292929292 per FTO of silver. Accordingly, the silver is valued at \$1.292929292 per FTO. The gold and silver reserves are in the custody of the U.S. Mint and FRBNY. The U.S. Mint holds gold and silver reserves without certificates (Note 4). As of September 30, 2008 and September 30, 2007, the gold and silver reserves consisted of the following (in millions):

	FTOs	Statutory Rate	9/30/08 Statutory Value	Market Rate	9/30/08 Market Value
Gold	248,046,116	\$ 42.2222	\$ 10,473	\$ 884.50	\$ 219,397
Gold Held by Federal Reserve	13,452,784	42.2222	568	884.50	11,899
Subtotal - Gold	261,498,900		\$ 11,041		\$ 231,296
Silver	16,000,000	\$ 1.292929292	\$ 21	\$ 12.96	\$ 207
Total Gold and Silver Reserves			\$ 11,062		\$ 231,503

	FTOs	Statutory Rate	9/30/07 Statutory Value	Market Rate	9/30/07 Market Value
Gold	248,046,116	\$ 42.2222	\$ 10,473	\$ 743.00	\$ 184,298
Gold Held by Federal Reserve	13,452,784	42.2222	568	743.00	9,996
Subtotal - Gold	261,498,900		\$ 11,041		\$ 194,294
Silver	16,000,000	\$ 1.292929292	\$ 21	\$ 13.65	\$ 218
Total Gold and Silver Reserves			\$ 11,062		\$ 194,512

7. INVESTMENTS AND RELATED INTEREST

Investments in U.S. Government securities held by Treasury Department entities have been eliminated against the federal debt liability for financial reporting purposes (Note 4). The ESF holds most of the Treasury Department's other investments. Securities that the Treasury Department has both the positive intent and ability to hold to maturity are classified as investment securities held to maturity and are carried at historical cost, adjusted for amortization of premiums and accretion of discounts. Foreign investment holdings are normally invested in interest bearing securities issued or held through foreign governments or monetary authorities (Note 5).

As of September 30, 2008 and September 30, 2007, entity investments in foreign investment holdings consisted of the following (in millions):

Type of Investment	Cost/ Acquisition Value	Unamortized (Premium)/ Discount	Net Investment	Interest Receivable	9/30/08 Investment Balance	9/30/08 Market Value
Euro Bonds & Notes	\$ 4,477	\$ 29	\$ 4,506	\$ 115	\$ 4,621	\$ 4,641
Japanese Government Bonds	5,908	3	5,911	11	5,922	5,935
Other Investments	39	(6)	33	0	33	33
Total Non-Federal	\$ 10,424	\$ 26	\$ 10,450	\$ 126	\$ 10,576	\$ 10,609

Type of Investment	Cost/ Acquisition Value	Unamortized (Premium)/ Discount	Net Investment	Interest Receivable	9/30/07 Investment Balance	9/30/07 Market Value
Euro Bonds & Notes	\$ 4,338	\$ 52	\$ 4,390	\$ 113	\$ 4,503	\$ 4,462
Japanese Government Bonds	5,520	9	5,529	8	5,537	5,538
Other Investments	40	(6)	34	0	34	34
Total Non-Federal	\$ 9,898	\$ 55	\$ 9,953	\$ 121	\$ 10,074	\$ 10,034

On September 7, 2008 the Treasury Department entered into senior preferred stock purchase agreements with each GSE. In exchange for entering into these agreements, Treasury Department initially received from each GSE: (1) 1,000,000 shares of non-voting variable liquidation preference senior preferred stock with a liquidation preference value of \$1,000 per share and (2) warrants for the purchase at a nominal cost of 79.9 percent of common stock on a fully-diluted basis. The warrants expire on September 7, 2028 (Note 24). The GSE preferred stock and warrants for common stock were valued (Notes 1Q and 24) as of the initial date at cost of \$7,032 million and also valued at September 30, 2008 at \$12,374 million. As of September 30, 2008, GSE investments consisted of the following (in millions):

GSE Investment	Cost/ Appraisal Value	Unamortized (Premium) Discount	Net Investment	Interest Receivable	9/30/08 Investment Balance	9/30/08 Appraisal Value
Fannie Mae Sr. Preferred Stock	\$ 840	\$ 0	\$ 840	\$ 0	\$ 840	\$ 741
Freddie Mac Sr. Preferred Stock	824	0	824	0	824	727
Fannie Mae Warrants Common Stock	3,104	0	3,104	0	3,104	6,507
Freddie Mac Warrants Common Stock	2,264	0	2,264	0	2,264	4,399
Total GSE Investment	\$ 7,032	\$ 0	\$ 7,032	\$ 0	\$ 7,032	\$ 12,374

8. RESERVE POSITION IN THE INTERNATIONAL MONETARY FUND

The United States participates in the IMF through a quota subscription. Quota subscriptions are paid partly through the transfer of reserve assets, such as foreign currencies or SDR, which are international reserve currency assets created by the IMF, and partly by making domestic currency available as needed through a non-interest-bearing letter of credit. This letter of credit, issued by the Treasury Department and maintained by the FRBNY, represents the bulk of the IMF's holdings of dollars. Approximately one quarter of one percent of the U.S. quota is maintained in cash balances in an IMF account at FRBNY.

While resources for transactions between the IMF and the United States are appropriated, they do not result in net budgetary outlays. This is because U.S./IMF quota transactions constitute an exchange of monetary assets in which the United States receives an equal offsetting claim on the IMF in the form of an increase in the U.S. reserve position in the IMF, which is interest-bearing and can be drawn at any time for balance of payments needs. When the IMF draws dollars from the letter of credit to finance its operations and expenses, the drawing does not represent a net budget outlay on the part of the United States because there is a commensurate increase in the U.S. reserve position. When the IMF repays dollars to the United States, no net budget receipt results because the U.S. reserve position declines concurrently in an equal amount.

As of September 30, 2008 and 2007, the U.S. quota in the IMF was 37.1 billion SDR, valued at approximately \$57.8 billion. The quota consisted of the following (in millions):

	2008	2007
Letter of Credit ¹	\$ 53,012	\$ 53,212
U.S. Dollars Held in Cash by the IMF ¹	88	152
Reserve Position ²	4,750	4,464
U.S. Quota in the IMF	\$ 57,850	\$ 57,828

¹ This amount is included in entity appropriated funds under Note 2, Fund Balance with Treasury, and unexpended appropriations – Obligations/Undelivered orders.

² This amount is included in the Cumulative Results of Operations.

The U.S. reserve position is denominated in SDR, as is the U.S. quota. Consequently, fluctuations in the value of the dollar with respect to the SDR results in valuation changes in dollar terms for the U.S. reserve position in the IMF as well as the IMF letter of credit. The Treasury Department periodically adjusts these balances to maintain the SDR value of the U.S. quota and records the change as a deferred gain or loss in its cumulative results of operations. These adjustments, known as maintenance of value adjustments, are settled annually after the close of the IMF financial year on April 30. Such adjustments do not involve a flow of funds. At April 30, 2008, the annual settlement with the IMF resulting from the depreciation of the dollar against the SDR since April 30, 2007, called for an upward adjustment of the U.S. quota by \$3.4 billion and a corresponding decrease to Unexpended Appropriations on the Statement of Changes in Net Position (At April 30, 2007, the depreciation of the dollar against the SDR since April 30, 2006, called for an upward adjustment of the U.S. quota by \$1.793 billion and a corresponding decrease to Unexpended Appropriations.) The dollar balances shown above for the U.S. quota include accrued valuation adjustments. At September 30, 2008, the

Treasury Department recorded a net deferred valuation loss in the amount of \$15.5 million for deferred maintenance of value adjustments needed at year end (\$258.2 million valuation gain at September 30, 2007).

The United States earns “remuneration” (interest) on its reserve position in the IMF except for the portion of the reserve position originally paid in gold. Remuneration is paid quarterly and is calculated on the basis of the SDR interest rate. The SDR interest rate is a market-based interest rate determined on the basis of a weighted average of interest rates on short-term instruments in the markets of the currencies included in the SDR valuation basket. Payment of a portion of this remuneration is deferred as part of a mechanism for creditors and debtors to share the financial consequences of overdue obligations to the IMF, such as unpaid overdue interest, and to similarly share the burden of establishing any contingency accounts deemed necessary to reflect the possibility of non-repayment of relevant principal amounts. As overdue interest is paid, previously deferred remuneration corresponding to the creditors’ share of the burden of earlier nonpayment is included in the next payment of remuneration. The deferred remuneration corresponding to the creditors’ share of establishing the contingency accounts is usually paid when there are no longer any relevant overdue obligations or when the IMF Executive Board determines to pay the remuneration. There was no deduction in the remuneration paid by the IMF as a result of burden-sharing during fiscal years 2008 or 2007. For fiscal years 2008 and 2007, the Treasury Department received \$59 million and \$107 million as remuneration (Note 5).

In addition to quota subscriptions, the IMF maintains borrowing arrangements to supplement its resources in times of crisis when IMF liquidity is low. The United States currently participates in two such arrangements – the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB). There were no U.S. loans outstanding under these arrangements in fiscal year 2008 and fiscal year 2007. The dollar equivalent of SDR \$6.7 billion has been appropriated to finance U.S. participation in the GAB and NAB; as of September 30, 2008 and September 30, 2007, this amounted to \$10.5 billion and \$10.4 billion, respectively, in standing appropriations available for lending through the GAB or NAB as needed. As is the case for the U.S. quota in the IMF, budgetary treatment of U.S. participation in the GAB and NAB does not result in net budgetary outlays, since transactions under the GAB or NAB result in concurrent adjustments to the U.S. reserve position in the IMF.

9. INVESTMENTS IN INTERNATIONAL FINANCIAL INSTITUTIONS

The Treasury Department participates in Multilateral Development Banks (MDBs) to support poverty reduction, private sector development, and transition to market economies and sustainable economic growth and development, thereby advancing the United States' economic, political, and commercial interests abroad. The MDB consist of the World Bank Group (International Bank for Reconciliation and Development, International Finance Corporation, and Multilateral Investment Guarantee Agency), and five regional development banks (the African, Asian, European, Inter-American, and North American institutions), as enumerated in the table below. These investments are non-marketable equity investments valued at cost.

As of September 30, 2008 and September 30, 2007, investments in international financial institutions consisted of the following (in millions):

	2008	2007
African Development Bank	\$ 172	\$ 172
Asian Development Bank	458	458
European Bank for Reconstruction and Development	633	624
Inter-American Development Bank	1,482	1,480
International Bank for Reconstruction and Development	1,985	1,985
International Finance Corporation	569	569
Multilateral Investment Guarantee Agency	45	45
North American Development Bank	202	188
Total	\$ 5,546	\$ 5,521

Refer to Note 16 for a description of the contingent liability related to these institutions.

10. ACCOUNTS RECEIVABLE AND RELATED INTEREST

A. Tax, Other, and Related Interest Receivables, Net

Tax, other, and related interest receivables include receivables from tax assessments, excise taxes, fees, penalties, and interest assessed and accrued that were not paid or abated, reduced by an estimate for uncollectible amounts. In addition to amounts attributed to taxes, interest income due on monies deposited in Federal Reserve Banks is also included in this line item.

As of September 30, 2008 and September 30, 2007, Tax, Other, and Related Interest Receivables, and Net, consisted of the following (in millions):

Non-Entity:	2008	2007
IRS Federal Tax Receivable, Gross	\$ 112,067	\$ 98,016
Less: Allowance on Taxes Receivable	(83,046)	(72,007)
Receivable, Deposit of Earnings, Federal Reserve	1,465	1,291
Other Receivables and Interest	28	105
Less: Allowance on Other and Related Interest Receivable	(19)	(6)
Total Tax, and Other Non-Entity Receivables, Net	\$ 30,495	\$ 27,399
Entity:		
Miscellaneous Entity Receivables and Related Interest	383	160
Total Tax, Other and Related Interest Receivables, Net	\$ 30,878	\$ 27,559

IRS federal taxes receivable constitute the largest portion of the receivables. IRS federal taxes receivable consists of tax assessments, penalties, and interest which were not paid or abated, and which were agreed to by either the taxpayer and IRS, or the courts. An allowance for doubtful accounts is established for the difference between the gross receivables and the portion deemed collectible. The portion of tax receivables estimated to be collectible and the allowance for doubtful accounts are based on projections of collectability from a statistical sample of taxes receivable. The Treasury Department does not establish an allowance for the receivable on deposits of Federal Reserve earnings.

B. Intra-governmental Accounts and Related Interest Receivable

Intra-governmental accounts receivable and interest mainly represents non-entity payments made by the Treasury Department under the Contract Disputes Act (\$368 million of the \$396 million and \$364 million of the \$466 million displayed on the balance sheet for 2008 and 2007, respectively). Other federal agencies are required to reimburse the Treasury Department for payments made on their behalf, related to the Contract Disputes Act and the No Fear Act. These amounts are a receivable on the Treasury Department's books, of the Financial Management Service, and a payable on the other federal agencies' books until reimbursement is made. The remaining amount displayed as intra-governmental accounts receivable and interest is related to miscellaneous intra-governmental transactions.

11. INVENTORY AND RELATED PROPERTY, NET

Inventory and related property includes inventory, operating materials and supplies, and forfeited property held by Treasury. The Treasury Department's operating materials and supplies are maintained for the production of bureau products. The Treasury Department maintains inventory accounts or balances (e.g., metals, paper, etc.) for use in manufacturing currency and coins. The cost of these items is included in inventory costs, and is recorded as cost of goods sold upon delivery to customers. Inventory for check processing activities is also maintained. As of September 30, 2008 and September 30, 2007, inventory and related property consisted of the following (in millions):

	2008	2007
Operating materials and supplies held for use	\$ 16	\$ 15
Operating materials and supplies held in reserve for future use	24	23
Forfeited property	100	85
Inventory – raw materials	355	288
Inventory – work in process	86	117
Inventory – finished goods	135	121
Allowance for inventories and related property	(18)	(11)
Total Inventories and Related Property, Net	\$ 698	\$ 638

12. PROPERTY, PLANT, AND EQUIPMENT, NET

As of September 30, 2008 and September 30, 2007, property, plant, and equipment consisted of the following (in millions):

	Depreciation Method	Service Life	Cost	Accumulated Depreciation	2008 Net Book Value
Buildings, structures, and facilities	S/L	3 - 50 years	\$ 669	\$ (297)	\$372
Furniture, fixtures, and equipment	S/L	2 - 20 years	3,376	(2,608)	768
Construction in progress	N/A	N/A	35	0	35
Land and land improvements	N/A	N/A	12	0	12
Internal use software	S/L	2 - 10 years	1,151	(664)	487
Internal use software in development	N/A	N/A	205	0	205
Assets under capital lease	S/L	2 - 25 years	30	(20)	10
Leasehold improvements	S/L	2 - 25 years	580	(392)	188
Total			\$ 6,058	\$ (3,981)	\$ 2,077

	Depreciation Method	Service Life	Cost	Accumulated Depreciation	2007 Net Book Value
Buildings, structures, and facilities	S/L	3 - 50 years	\$ 658	\$ (276)	\$ 382
Furniture, fixtures, and equipment	S/L	2 - 20 years	3,271	(2,503)	768
Construction in progress	N/A	N/A	27	0	27
Land and land improvements	N/A	N/A	12	0	12
Internal use software	S/L	2 - 10 years	1,116	(564)	552
Internal use software in development	N/A	N/A	148	0	148
Assets under capital lease	S/L	2 - 25 years	25	(12)	13
Leasehold improvements	S/L	2 - 25 years	526	(342)	184
Total			\$ 5,783	\$ (3,697)	\$ 2,086

The service life ranges vary significantly due to the diverse nature of PP&E held by the Treasury Department.

Heritage Assets

The Treasury Department Complex (Main Treasury Building and Annex) was declared a national historical landmark in 1972. The Treasury Department Complex is treated as a multi-use heritage asset and is expected to be preserved indefinitely.

13. NON-ENTITY ASSETS

As of September 30, 2008 and September 30, 2007, non-entity assets consisted of the following (in millions):

Intra-governmental Assets:	2008	2007
Fund Balance (Note 2)	\$ 889	\$ 874
Loans and Interest Receivable (Note 3)	226,194	202,488
Accounts Receivable and Related Interest (Note 10)	372	367
Advances to the Black Lung Trust Fund (Note 4)	10,484	10,058
Due from the General Fund (Note 4)	10,100,763	9,052,624
Total Non-Entity Intra-governmental Assets	\$ 10,338,702	\$ 9,266,411
 Cash, Foreign Currency, and Other Monetary Assets (Note 5)	 364,941	 70,701
Gold and Silver Reserves (Note 6)	11,062	11,062
Loans and Interest Receivable (Note 3)	130	133
Investments in Government Sponsored Enterprises (Note 7)	7,032	0
Tax, Other, and Related Interest Receivable, Net (Note 10)	30,495	27,399
Miscellaneous Assets	12	9
Total Non-Entity Assets	\$ 10,752,374	\$ 9,375,715

Non-entity assets are those that are held by the Treasury Department but are not available for use by the Treasury Department. For example, Non-entity fund balance with Treasury represents unused balances of appropriations received by various Treasury Department entities to conduct custodial operations such as the payment of interest on the federal debt and refunds of taxes and fees. Non-entity loans and interest receivable represents loans managed by the Treasury Department on behalf of the U.S. Government. These loans are provided to federal agencies, and the Treasury Department is responsible for collecting these loans and transferring the proceeds to the General Fund of the U.S. Government. Non-entity cash, foreign currency, and other monetary assets include the operating cash of the U.S. Government, managed by the Treasury Department. It also includes foreign currency maintained by various U.S. and military disbursing offices, as well as seized monetary instruments.

On September 18, 2008, the Bureau of Public Debt began issuing specific cash management bills to fund the Supplementary Financing Program (SFP). The SFP is a temporary program that was announced by the Treasury Department and the Federal Reserve on September 17, 2008. The purpose of the program is to provide emergency cash for the Federal Reserve initiatives aimed at addressing the ongoing crisis in financial markets. The balance listed above of \$364,941 million for 2008 is an increase over \$70,701 million in 2007 as a result of the program. As of September 30, 2008, there were a total of eight cash management bills outstanding that totaled \$300 billion (Notes 5, 14, 24, and 25).

14. FEDERAL DEBT AND INTEREST PAYABLE

The Treasury Department is responsible for administering the federal debt on behalf of the U.S. Government. The federal debt includes borrowings from the public as well as borrowings from federal agencies. The federal debt managed by the Treasury Department does not include debt issued by other governmental agencies such as the Tennessee Valley Authority or the Department of Housing and Urban Development.

The federal debt as of September 30, 2008 and September 30, 2007 was as follows (in millions):

	2008	2007
Intra-governmental		
Beginning Balance	\$ 3,922,548	\$ 3,628,701
New Borrowings/Repayments	257,022	293,847
Subtotal at Par Value	4,179,570	3,922,548
Premium/(Discount)	32,489	3,672
Interest Payable Covered by Budgetary Resources	50,355	48,568
Total	\$ 4,262,414	\$ 3,974,788
	2008	2007
Owed to the Public		
Beginning Balance	\$ 5,049,305	\$ 4,843,121
New Borrowings/Repayments	759,386	206,184
Subtotal at Par Value	5,808,691	5,049,305
Premium/(Discount)	(36,124)	(39,441)
Interest Payable Covered by Budgetary Resources	40,127	44,386
Total	\$ 5,812,694	\$ 5,054,250

Debt held by the public approximates the U.S. Government's competition with other sectors in the credit markets. In contrast, debt held by federal entities, primarily trust funds, represents the cumulative annual surpluses of these funds (*i.e.*, excess of receipts over disbursements plus accrued interest) that have been used to finance general government operations.

Federal Debt held by Other Federal Agencies

Certain federal agencies are allowed to invest excess funds in debt securities issued by the Treasury Department on behalf of the U.S. Government. The terms and the conditions of debt securities issued are designed to meet the cash needs of the U.S. Government. The vast majority is non-marketable securities issued at par value, but some are issued at market prices whose prices and interest rates reflect market terms. The average interest rate for debt held by the federal entities in fiscal year 2008 was 4.83percent (5.1percent in fiscal year 2007).

The federal debt also includes intra-governmental marketable debt securities that certain agencies are permitted to buy and sell on the open market. The debt, at par value (not including interest receivable), owed to federal agencies as of September 30, 2008 and September 30, 2007 was as follows (in millions):

	2008	2007
Social Security Administration	\$ 2,367,138	\$ 2,182,091
Office of Personnel Management	797,107	762,013
Department of Defense Agencies	335,672	288,456
Department of Health and Human Services	380,540	361,294
All Other Federal Entities - Consolidated	299,113	328,694
Total Federal Debt Held by Federal Entities	\$ 4,179,570	\$ 3,922,548

The above balances do not include premium/discount and interest payable.

Federal Debt Held by the Public

As of September 30, 2008 and September 30, 2007, Federal Debt held by the Public consisted of the following:

(at par value, in millions)	Term	Average Interest Rates	2008
Marketable:			
Treasury Bills	1 Year or Less	1.6%	\$ 1,484,332
Treasury Notes	2 - 10 Years	4.1%	2,623,364
Treasury Bonds	Over 10 Years	7.1%	578,504
Treasury Inflation Protected Security (TIPS)	5 Years or More	2.0%	523,951
Total Marketable			\$ 5,210,151
Non-Marketable	On Demand to Over 10 Years	4.1%	598,540
Total Federal Debt (Public)			\$ 5,808,691

(at par value, in millions)	Term	Average Interest Rates	2007
Marketable:			
Treasury Bills	1 Year or Less	4.6%	\$ 954,607
Treasury Notes	2 - 10 Yearss	4.4%	2,456,100
Treasury Bonds	Over 10 Years	7.4%	560,922
Treasury Inflation Protected Security (TIPS)	5 Years or More	2.3%	456,776
Total Marketable			4,428,405
Non-Marketable	On Demand to Over 10 Years	4.9%	620,900
Total Federal Debt (Public)			\$ 5,049,305

The above balances do not include premium/discount and interest payable.

The Treasury Department issues marketable bills at a discount and pays the par amount of the security upon maturity. The average interest rate on Treasury bills represents the original issue effective yield on securities outstanding as of September 30, 2008 and 2007, respectively. Treasury bills are issued with a term of one year or less.

The Treasury Department issues marketable notes and bonds as long-term securities that pay semi-annual interest based on the securities' stated interest rates. These securities are issued at either par value or at an amount that reflects a discount or a premium. The average interest rate on marketable notes and bonds represents the stated interest rate adjusted by any discount or premium on securities outstanding as of September 30, 2008 and 2007. Treasury notes are issued with a term of 2 to 10 years and Treasury bonds are issued with a term of more than 10 years. The Treasury Department also issues inflation-indexed securities (TIPS) that have interest and redemption payments, which are tied to the Consumer Price Index, a widely used measurement of inflation. TIPS are issued with a term of five years or more. At maturity, TIPS are redeemed at the inflation-adjusted principal amount, or the original par value, whichever is greater. TIPS pay a semi-annual fixed rate of interest applied to the inflation-adjusted principal.

Over the course of fiscal year 2008, changes in economic conditions, financial markets, and fiscal policy as well as a reduction in nonmarketable debt issuance have caused an increase in Treasury's marketable borrowing needs. Financial market strains have impacted the real economy, and the nation has experienced lower economic growth, lower receipts, and increased outlays. Treasury has responded to the increase in marketable borrowing requirements by increasing issuance sizes of regular bills, the frequency, terms, and issuance sizes of cash management bills, and the issuance sizes of nominal coupon security offerings.

Federal Debt Held by the Public includes federal debt held outside of the U. S. Government by individuals, corporations, Federal Reserve Banks (FRB), state and local governments, and foreign governments and central banks. As of September 30, 2008, the FRB owned \$221 billion, net of \$256 billion in securities lent to dealers, for total holdings of \$477 billion. As of September 30, 2007, the FRB owned \$775 billion, net of \$5 billion in securities lent to dealers, for total holdings of \$780 billion. These securities are held in the FRB System Open Market Account (SOMA) for the purpose of conducting monetary policy.

Other Debt and Interest Payable

Borrowings outstanding are with the Civil Service Trust Fund, which is administered by the Office of Personnel Management. The interest rates on these borrowings range from 4.62 percent to 5.62 percent, and the maturity dates range from June 30, 2009 to June 30, 2019. Borrowings began in 2005.

15. D.C. PENSIONS AND JUDICIARY RETIREMENT ACTUARIAL LIABILITY

Pursuant to Title XI of the Balanced Budget Act of 1997, as amended (the Act), on October 1, 1997, Treasury became responsible for certain District of Columbia retirement plans. The Act was intended to relieve the District of Columbia government of the burden of unfunded pension liabilities transferred to the District by the U.S. Government in 1979. To fulfill its responsibility, Treasury manages two funds — the D.C. Teachers, Police Officers, and Firefighters Federal Pension Fund (the D.C. Federal Pension Fund), and the District of Columbia Judicial Retirement and Survivors Annuity Fund (the Judicial Retirement Fund). The Treasury Department is required to make annual amortized payments from the General Fund of the U.S. Government to the D.C. Federal Pension Fund and the Judicial Retirement Fund. The actuarial cost method used to determine costs for the retirement plans is the Aggregate Entry Age Normal Actuarial Cost Method. The actuarial liability is based upon long-term assumptions selected by the Treasury Department. The pension benefit costs incurred by the plans are included on the Consolidated Statements of Net Cost.

D.C. Federal Pension Fund

The purpose of the D.C. Federal Pension Fund is to make federal benefit payments and pay necessary administrative expenses for the District of Columbia Police Officers', Firefighters', and Teachers' Retirement Plans for benefits earned based upon service on or before June 30, 1997. The amount paid into the D.C. Federal Pension Fund from the General Fund of the U.S. Government was \$340.2 million for fiscal year 2008 (\$345.4 million during fiscal year 2007). As of September 30, 2008, the unobligated budgetary resources of the D.C. Federal Pension Fund were approximately \$3,564 million, and the pension actuarial liability was \$8,641 million, resulting in an unfunded liability of \$5,077 million. (As of September 30, 2007, the unobligated budgetary resources of the D.C. Federal Pension Fund were approximately \$3,565 million, and the pension actuarial liability was \$8,842 million, resulting in an unfunded liability of \$5,277 million.) In fiscal year 2008, the assumption for the annual rate of investment return in fiscal year 2009 is 4.7percent for the D.C. Federal Pension Fund with a gradual increase to 6.0percent by fiscal year 2014; and the assumption for the future annual rate of inflation and future cost-of-living adjustments is 3.5percent. In fiscal year 2007, the assumption for the annual rate of investment return for the D.C. Federal Pension Fund in fiscal year 2008 was 4.7percent with a gradual increase to 6percent by fiscal year 2013; and the assumption for the future annual rate of inflation and future cost-of-living adjustments was 3.5percent. In fiscal year 2008, the assumption for the future annual rate of salary increases is 6.5percent for police officers and firefighters (also 6.5percent during fiscal year 2007), and 5.5percent for teachers (also 5.5percent during fiscal year 2007).

Judicial Retirement Fund

The purpose of the Judicial Retirement Fund is to make federal benefit payments and pay necessary administrative expenses for the Judges' Retirement Plans for all benefits earned. The amount paid into the Judicial Retirement Fund from the General Fund of the U.S. Government will be \$6.98 million for fiscal year 2008 (\$7.4 million during fiscal year 2007). As of September 30, 2008, the unobligated budgetary resources of the Judicial Retirement Fund were approximately \$118.5 million, and the pension actuarial liability was \$161.6 million, resulting in an unfunded liability of \$43.1 million. (as of September 30, 2007, the unobligated budgetary resources of the Judicial Retirement Fund were approximately \$114.3 million, and the pension actuarial liability was \$150.1 million, resulting in an unfunded liability of \$35.8 million.) In fiscal year 2008, the assumption for the annual rate of investment return for the Judicial Retirement Fund in fiscal year 2009 is 5.2percent for the Judicial Retirement Fund with a gradual increase

to 6.0percent by fiscal year 2015; and the assumption for the future annual rate of inflation and future cost-of-living adjustments is 3.5percent. In fiscal year 2007, the assumption for the future annual rate of investment return for the Judicial Retirement Fund was 6percent; and the assumption for the future annual rate of inflation and future cost-of-living adjustments was 3.5percent. In fiscal year 2008, the assumption for the future annual rate of salary increases is 3.5percent for judges. This assumption is unchanged from fiscal year 2007.



16. COMMITMENTS AND CONTINGENCIES

Legal Contingencies

The Department is a party in various administrative proceedings, legal actions, and claims including equal opportunity matters which may ultimately result in settlements or decisions adverse to the Federal Government. These contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown. Treasury has one contingent liability in fiscal year 2008 related to the legal action taken on the case, American Council of the Blind and Others, where losses are determined to be probable and amounts can be estimated. The Department has disclosed contingent liabilities where the conditions for liability recognition have not been met and the likelihood of unfavorable outcome is more than remote. The Department does not accrue for possible losses related to cases where the potential loss cannot be estimated or the likelihood of an unfavorable outcome is less than probable.

In some cases, a portion of any loss that may occur may be paid by the Treasury's Judgment Fund which is separate from the operating resources of the Department. For those cases related to awards under federal anti-discrimination and whistleblower protection acts, Treasury must reimburse the Judgment Fund from future appropriations.

In the opinion of the Department's management and legal counsel, based on information currently available, the expected outcome of legal actions, individually or in the aggregate, will not have a materially adverse effect on the Department's financial statements, except for the legal actions described below.

Pending Legal Actions

- ***The American Council of the Blind and Others:*** Plaintiffs have filed suit against the Department under Section 504 of the Rehabilitation Act seeking the redesign of U.S. currency. In 2006, a judge ruled that the current U.S. currency design violates this Act and this ruling was appealed. In 2008, the United States Court of Appeals for the District of Columbia Circuit affirmed this ruling. No monetary damages were awarded by the Court. However, the Department is required to provide meaningful access to United States currency for blind and other visually impaired persons. This may require changes to U.S. currency (excluding the one-dollar note.) The Court ordered such changes shall be completed, in connection with each denomination of currency, not later than the date when a redesign is next approved by the Secretary of the Treasury. Because the cost of these changes will be incorporated into future currency redesign costs, no redesign costs have been accrued in the accompanying financial statements as of September 30, 2008 and 2007.

The judge in the above mentioned case also has ordered that the parties confer and attempt to negotiate attorney fees and costs to be awarded the plaintiffs. A preliminary attorney fee and cost estimate of \$800,000 is included in other accrued liabilities. However, updated information has changed this figure to a range of \$900,000 to \$1,200,000.

- ***Amidax Trading Group v. S.W.I.F.T.:*** Allegations have been made that S.W.I.F.T. unlawfully disclosed information to the U.S. Government. We have no opinion as to the likelihood of an unfavorable outcome or an estimate of potential loss at this time.
- ***Cobell et al. v. Kempthorne et al. (formerly Cobell v. Norton):*** Native Americans allege that the Department of Interior and the Treasury Department have breached trust obligations with respect to the management of the plaintiffs' individual Indian monies. On August 7, 2008, a Federal District Court issued

an opinion awarding \$455 million to the plaintiffs. The opinion is not a final order, and both parties have petitioned for the right to appeal. The Department of the Interior is also a defendant in this case and will be reporting this case in their financial statements.

- **Tribal Trust Fund Cases:** Numerous cases have been filed in which Native American Tribes seek a declaration that the U.S. has not provided the tribes with a full and complete accounting of their trust funds, and seek an order requiring the government to provide such an accounting. In addition, there are a number of other related cases for damages which do not name the Treasury Department as a defendant. It is not possible at this time to determine the likelihood of an unfavorable outcome or an estimate of the amount or range of any potential loss. The Department of the Interior is also a defendant in these cases.
- **Other Legal Actions:** The Department is also involved in employment related legal actions (*e.g.*, Discrimination, Equal Employment Opportunity Commission, Merit System Protection Board, etc.) which were reported to have a “reasonably possible” chance of being decided in the plaintiff’s favor. However, an estimate of potential loss cannot be determined at this time. It is not expected that these cases will have a material effect on Treasury’s financial position or results.

There are also other legal actions pending where the ultimate resolution of the legal actions, for which the possibility of loss could not be determined, may materially affect Treasury’s financial position or results. As of September 30, 2008, three legal claims amounting to approximately \$156.5 million existed for which the possibility of loss could not be determined.

Other Contingencies

Multilateral Development Banks (MDB): The Treasury Department has subscribed to capital for certain MDB, portions of which are callable under certain limited circumstances to meet the obligations of the respective MDB. There has never been, nor is there anticipated, a call on the Treasury Department subscriptions. As of September 30, 2008 and September 30, 2007, U.S. callable capital in MDB was as follows (in millions):

	2008	2007
African Development Bank	\$ 1,634	\$ 1,602
Asian Development Bank	5,911	5,911
European Bank for Reconstruction and Development	1,805	1,805
Inter-American Development Bank	28,687	28,687
International Bank for Reconstruction and Development	22,641	22,641
Multilateral Investment Guarantee Agency	301	301
North American Development Bank	1,275	1,275
Total	\$ 62,254	\$ 62,222

Terrorism Risk Insurance Program: The Terrorism Risk Insurance Act (TRIA or the Act) was signed into law on November 26, 2002. This law was enacted to address market disruptions resulting from terrorist attacks on September 11, 2001. The Act helps to ensure available and affordable commercial property and casualty insurance for terrorism risk, and simultaneously allows private markets to stabilize. The Terrorism Risk Insurance Program is activated upon the certification of an “act of terrorism” by the Secretary of the Treasury in concurrence with the Secretary of State and the Attorney General. If a certified act of terrorism occurs, insurers may be eligible to receive

reimbursement from the Federal Government for insured losses above a designated deductible amount. Insured losses above this amount will be shared between insurance companies and the Federal Government. The Act also gives Treasury authority to recoup federal payments made under the Program through policyholder surcharges under certain circumstances and contains provisions designed to manage litigation arising from or relating to a certified act of terrorism.

The original TRIA program was to expire on December 31, 2005, but the Program was extended through December 31, 2007, by the Terrorism Risk Insurance Extension Act of 2005 (Extension Act). This law included the following significant changes: it reduced the Federal role in terrorism risk insurance markets by increasing insurer deductibles and excluding certain types of previously covered insurance. The Extension Act also reduced the Federal Government's share of insured losses and added a "Program Trigger" provision which precludes federal payments unless insured losses from a certified act of terrorism exceeds \$100 million.

On December 26, 2007, the President signed into law the Terrorism Risk Insurance Program Reauthorization Act of 2007 (Reauthorization Act) extending the Program through December 31, 2014. The Reauthorization Act, among other Program changes, revised the definition of "Act of Terrorism" to remove the certification requirement that the act be committed by an individual acting on behalf of a foreign person or foreign interest; revised the provisions of the Act with regard to the cap on annual liability for insured losses of \$100 billion; and established deadlines by which recoupment of federal payments made under the Program would have to be accomplished.

17. LIABILITIES

Liabilities Not Covered by Budgetary and Other Resources

As of September 30, 2008 and September 30, 2007, liabilities not covered by budgetary and other resources consisted of the following (in millions):

	2008	2007
Intra-governmental Liabilities Not Covered by Budgetary and Other Resources:		
Federal Debt Principal, Premium/Discount (Note 14)	\$ 4,212,059	\$ 3,926,220
Other Intra-governmental Liabilities	105	105
Total Intra-governmental Liabilities Not Covered by Budgetary and Other Resources	\$ 4,212,164	\$ 3,926,325
Federal Debt Principal, Premium/Discount (Note 14)	5,772,567	5,009,864
D.C. Pensions Liability (Note 15)	5,120	5,313
Other Liabilities	1,085	1,037
Total Liabilities Not Covered by Budgetary and Other Resources	\$ 9,990,936	\$ 8,942,539

Other Liabilities

Total “Other Liabilities” displayed on the Balance Sheets consists of both liabilities that are covered and not covered by budgetary resources.

The amounts displayed of \$17,852 million and \$3,664 million, respectively, at September 30, 2008 and September 30, 2007, consisted of the following (in millions):

	2008		
	Current	Non-Current	Total
Intra-governmental			
Unfunded Federal Workers Compensation Program Liability (FECA)	\$ 45	\$ 57	\$ 102
Accounts Payable	76	0	76
Other Accrued Liabilities	165	2	167
Total Intra-governmental	\$ 286	\$ 59	\$ 345
With the Public			
GSE Quarter Ended 9/30/08 Keepwell Payable (Note 24)	\$ 13,800	\$ 0	\$ 13,800
Actuarial Federal Workers Compensation Program Liability (FECA)	0	594	594
Liability for Deposit Funds (Held by the Federal Government for Others) and Suspense Accounts	526	0	526
Accrued Funded Payroll and Benefits	424	0	424
Capital Lease Liabilities	4	1	5
Accounts Payable and Other Accrued Liabilities	2,460	43	2,503
Total with the Public	\$ 17,214	\$ 638	\$ 17,852

	2007		
	Current	Non-Current	Total
Intra-governmental			
Unfunded Federal Workers Compensation Program Liability (FECA)	\$ 44	\$ 58	\$ 102
Accounts Payable	46	21	67
Other Accrued Liabilities	158	2	160
Total Intra-governmental	\$ 248	\$ 81	\$ 329
With the Public			
Actuarial Federal Workers Compensation Program Liability (FECA)	\$ 0	\$ 573	\$ 573
Liability for Deposit Funds (Held by the Federal Government for Others) and Suspense Accounts	573	0	573
Accrued Funded Payroll and Benefits	402	0	402
Capital Lease Liabilities	2	5	7
Accounts Payable and Other Accrued Liabilities	2,045	64	2,109
Total with the Public	\$ 3,022	\$ 642	\$ 3,664

18. NET POSITION

Unexpended Appropriations represents the amount of spending authorized as of year-end that is unliquidated or unobligated and has not lapsed, been rescinded, or withdrawn. No-year appropriations remain available for obligation until expended. Annual appropriations remain available for upward or downward adjustment of obligations until expired.

Cumulative Results of Operations represents the net results of operations since inception, and includes cumulative amounts related to investments in capitalized assets and donations and transfers of assets in and out without reimbursement. Also included as a reduction in Cumulative Results of Operations are accruals for which the related expenses require funding from future appropriations and assessments. These future funding requirements include, among others (a) accumulated annual leave earned but not taken, (b) accrued workers compensation, and (c) expenses for contingent liabilities.

The amount reported as “appropriations received” are appropriated from Treasury General Fund of the U.S. Government receipts, such as income taxes, that are not earmarked by law for a specific purpose. This amount will not necessarily agree with the “appropriation received” amount reported on the Statement of Budgetary Resources (SBR) because of differences between proprietary and budgetary accounting concepts and reporting requirements. For example, certain dedicated and earmarked receipts are recorded as “appropriations received” on the SBR, but are recognized as exchange or non-exchange revenue (*i.e.*, typically in special and non-revolving trust funds) and reported on the Statement of Changes in Net Position in accordance with Statement of Federal Financial Accounting Standards (SFFAS No. 7).

Transfers to the General Fund and Other

The amount reported as “Transfers to the General Fund and Other” on the Consolidated Statements of Changes in Net Position under “Other Financing Sources” mainly represents the distribution of interest revenue to the General Fund of the U.S. Government of \$13.5 billion and \$12.4 billion, for the year ended September 30, 2008 and year ended September 30, 2007, respectively and \$7.032 billion for the value of the GSE stock transactions for the year ended September 30, 2008. The interest revenue is accrued on inter-agency loans held by the Treasury Department on behalf of the U.S. Government. A corresponding balance is reported on the Consolidated Statement of Net Cost under “Federal Costs: Less Interest Revenue from Loans.” The amount reported on the Consolidated Statement of Net Cost is reduced by eliminations with Treasury Department bureaus.

The Treasury Department also includes seigniorage in “Transfers to the General Fund and Other.” Seigniorage is the face value of newly minted circulating coins less the cost of production. The United States Mint is required to distribute the seigniorage that it recognizes to the General Fund of the U.S. Government. The distribution is also included in “Transfers to the General Fund and Other.” In any given year, the amount recognized as seigniorage may differ for the amount distributed to the General Fund by an insignificant amount due to timing differences.

Seigniorage in the amounts of \$728.6 million and \$1,032 million was recognized, respectively, for the year ended September 30, 2008 and year ended September 30, 2007. Distributions to the General Fund, including seigniorage, and numismatic profit amounted to \$750 million and \$825 million, respectively, for the years ended September 30, 2008 and September 30, 2007.

19. CONSOLIDATED STATEMENT OF NET COST AND NET COSTS OF TREASURY SUB-ORGANIZATIONS

The Treasury Department's Consolidated Statement of Net Cost displays information on a consolidated basis. The complexity of the Treasury Department's organizational structure and operations requires that supporting schedules for Net Cost be included in the notes to the financial statements. These supporting schedules provide consolidating information, which fully displays the costs of each sub-organization (Departmental Offices and each operating bureau).

The classification of sub-organizations has been determined in accordance with SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government* which states that the predominant factor is the reporting entity's organization structure and existing responsibility components, such as bureaus, administrations, offices, and divisions within a department.

Each sub-organization is responsible for accumulating costs. The assignment of the costs to Treasury-wide programs is the result of using the following cost assignment methods: (1) direct costs, (2) cause and effect, and (3) cost allocation.

Intra-Departmental costs/revenues resulting from the provision of goods and/or services on a reimbursable basis among Departmental sub-organizations are reported as costs by providing sub-organizations. Accordingly, such costs/revenues are eliminated in the consolidation process.

To the extent practical or reasonable to do so, earned revenue is deducted from the gross costs of the programs to determine their net cost. There are no precise guidelines to determine the degree to which earned revenue can reasonably be attributed to programs. The attribution of earned revenues requires the exercise of managerial judgment.

In fiscal year 2008, the management of the Treasury Franchise Fund (BPF) was transferred from the Departmental Offices (DO) to the Bureau of the Public Debt (BPD). Accordingly, BPF is included with BPD for fiscal year 2008 reporting. For comparative purposes, this resulted in an increase in amounts reported under the Management Program for BPD in fiscal year 2008 and a decrease in the amounts reported for DO.

In fiscal year 2008, BPD began consolidating BPF. It should be noted that the 2008 Consolidated Statement of Net Cost by Treasury Sub-organization DO includes BPF, in fiscal year 2007 statement it is included in BPD. This change has an immaterial effect on the statement.

In fiscal year 2008, the Treasury Department began incurring costs in association with the intervention programs with GSEs. The amount reflected in the Statement of Net Cost for 2008 is \$13,800 million. This is the expense portion of the quarter ended September 30, 2008 Keepwell payment to ensure liquidity of Freddie Mac. There was no payment anticipated or accrued for Fannie Mae.

The Treasury Department's Consolidated Statement of Net Cost also presents interest expense on the Federal Debt and other federal costs incurred as a result of assets and liabilities managed on behalf of the U.S. Government. These costs are not reflected as program costs related to the Treasury Department's strategic plan missions. Such costs are eliminated in the consolidation process to the extent that they involve transactions with Treasury Department sub-organizations.

OMB Circular No. A-136, *Financial Reporting Requirements*, requires that the presentation of the Statements of Net Cost align directly with the goals and outcomes identified in the Strategic Plan. Accordingly, the Treasury Department has presented the gross costs and earned revenues by the applicable mission goals in the Treasury Department's fiscal years 2007–2012 Strategic Plan.

Other federal costs for the years ended September 30, 2008 and September 30, 2007 consisted of the following (in millions):

	<u>2008</u>	<u>2007</u>
Credit Reform Interest on Uninvested Funds (Intra-governmental)	\$ 5,043	\$ 4,632
Resolution Funding Corporation	1,393	1,987
Judgment Claims and Contract Disputes	786	1,222
Corporation for Public Broadcasting	448	464
Legal Services Corporation	347	350
All Other Payments	315	208
Total	<u>\$ 8,332</u>	<u>\$ 8,863</u>

19. Consolidated Statement of Net Cost and Net Costs of Treasury Sub-organizations (In Millions):

Fiscal Year Ended September 30, 2008	Bureau of Engraving and Printing	Bureau of the Public Debt	Departmental Offices	Financial Crimes Enforcement Network	Financial Management Service	Internal Revenue Service	U.S. Mint
Program Costs:							
FINANCIAL PROGRAM:							
Intra-governmental Gross Costs	\$ 0	\$ 71	\$ 1,392	\$ 0	\$ 202	\$ 4,107	\$ 0
Less: Earned Revenue	0	(15)	(2,009)	0	(159)	(72)	0
Intra-governmental Net Costs	0	56	(617)	0	43	4,035	0
Gross Costs with the public	0	256	373	0	1,120	8,441	0
Less: Earned Revenue	0	(10)	(1)	0	0	(287)	0
Net Costs with the public	0	246	372	0	1,120	8,154	0
Net Cost: Financial Program	0	302	(245)	0	1,163	12,189	0
ECONOMIC PROGRAM:							
Intra-governmental Gross Costs	81	0	462	0	0	0	78
Less: Earned Revenue	(8)	0	(811)	0	0	0	(10)
Intra-governmental Net Costs	73	0	(349)	0	0	0	68
Gross Costs with the public	449	0	1,740	0	0	0	1,958
Less: Earned Revenue	(509)	0	(1,529)	0	0	0	(2,063)
Net Costs with the public	(60)	0	211	0	0	0	(105)
Net Cost: Economic Program	13	0	(138)	0	0	0	(37)
SECURITY PROGRAM:							
Intra-governmental Gross Costs	0	0	139	58	0	0	0
Less: Earned Revenue	0	0	(18)	(2)	0	0	0
Intra-governmental Net Costs	0	0	121	56	0	0	0
Gross Costs with the public	0	0	171	52	0	0	0
Less: Earned Revenue	0	0	0	0	0	0	0
Net Costs with the public	0	0	171	52	0	0	0
Net Cost: Security Program	0	0	292	108	0	0	0
MANAGEMENT PROGRAM:							
Intra-governmental Gross Costs	0	51	143	0	0	0	0
Less: Earned Revenue	0	(237)	(224)	0	0	0	0
Intra-governmental Net Costs	0	(186)	(81)	0	0	0	0
Gross Costs with the public	0	207	300	0	0	0	0
Less: Earned Revenue	0	0	0	0	0	0	0
Net Costs with the public	0	207	300	0	0	0	0
Net Cost: Management Program	0	21	219	0	0	0	0
Net Cost of Treasury Operations	\$ 13	\$ 323	\$ 128	\$ 108	\$ 1,163	\$ 12,189	\$ (37)

**Fiscal Year Ended
September 30, 2008**

Program Costs:	Office of the Comptroller of the Currency	Office of Thrift Supervision	Alcohol, Tobacco Tax and Trade Bureau	Combined Total	Eliminations and Adjustments	9/30/2008 Consolidated
FINANCIAL PROGRAM:						
Intra-governmental Gross Costs	\$ 0	\$ 0	\$ 13	\$ 5,785	\$ (1,442)	\$ 4,343
Less: Earned Revenue	0	0	0	(2,255)	272	(1,983)
Intra-governmental Net Costs	0	0	13	3,530	(1,170)	2,360
Gross Costs with the public	0	0	36	10,226	0	10,226
Less: Earned Revenue	0	0	(1)	(299)	0	(299)
Net Costs with the public	0	0	35	9,927	0	9,927
Net Cost: Financial Program	0	0	48	13,457	(1,170)	12,287
ECONOMIC PROGRAM:						
Intra-governmental Gross Costs	96	34	13	764	(409)	355
Less: Earned Revenue	(27)	(14)	0	(870)	845	(25)
Intra-governmental Net Costs	69	20	13	(106)	436	330
Gross Costs with the public	584	217	36	4,984	0	4,984
Less: Earned Revenue	(710)	(254)	(1)	(5,066)	0	(5,066)
Net Costs with the public	(126)	(37)	35	(82)	0	(82)
Net Cost: Economic Program	(57)	(17)	48	(188)	436	248
SECURITY PROGRAM:						
Intra-governmental Gross Costs	0	0	0	197	(74)	123
Less: Earned Revenue	0	0	0	(20)	16	(4)
Intra-governmental Net Costs	0	0	0	177	(58)	119
Gross Costs with the public	0	0	0	223	0	223
Less: Earned Revenue	0	0	0	0	0	0
Net Costs with the public	0	0	0	223	0	223
Net Cost: Security Program	0	0	0	400	(58)	342
MANAGEMENT PROGRAM:						
Intra-governmental Gross Costs	0	0	0	194	(70)	124
Less: Earned Revenue	0	0	0	(461)	296	(165)
Intra-governmental Net Costs	0	0	0	(267)	226	(41)
Gross Costs with the public	0	0	0	507	0	507
Less: Earned Revenue	0	0	0	0	0	0
Net Costs with the public	0	0	0	507	0	507
Net Cost: Management Program	0	0	0	240	226	466
Net Cost of Treasury Operations	\$ (57)	\$ (17)	\$ 96	\$ 13,909	\$ (566)	\$ 13,343

19. Consolidated Statement of Net Cost and Net Costs of Treasury Sub-organizations (In Millions):

Fiscal Year Ended September 30, 2007	Bureau of Engraving and Printing	Bureau of the Public Debt	Departmental Offices	Financial Crimes Enforcement Network	Financial Management Service	Internal Revenue Service	U.S. Mint
Program Costs:							
FINANCIAL PROGRAM:							
Intra-governmental Gross Costs	\$ 0	\$ 76	\$ 1,395	\$ 0	\$ 171	\$ 3,967	\$ 0
Less: Earned Revenue	0	(14)	(2,097)	0	(144)	(45)	0
Intra-governmental Net Costs	0	62	(702)	0	27	3,922	0
Gross Costs with the public	0	259	474	0	981	8,049	0
Less: Earned Revenue	0	(3)	0	0	0	(231)	0
Net Costs with the public	0	256	474	0	981	7,818	0
Net Cost: Financial Program	0	318	(228)	0	1,008	11,740	0
ECONOMIC PROGRAM:							
Intra-governmental Gross Costs	81	0	69	0	0	0	69
Less: Earned Revenue	(5)	0	(850)	0	0	0	(9)
Intra-governmental Net Costs	76	0	(781)	0	0	0	60
Gross Costs with the public	466	0	2,593	0	0	0	1,520
Less: Earned Revenue	(573)	0	(3,033)	0	0	0	(1,595)
Net Costs with the public	(107)	0	(440)	0	0	0	(75)
Net Cost: Economic Program	(31)	0	(1,221)	0	0	0	(15)
SECURITY PROGRAM:							
Intra-governmental Gross Costs	0	0	135	51	0	0	0
Less: Earned Revenue	0	0	(13)	(1)	0	0	0
Intra-governmental Net Costs	0	0	122	50	0	0	0
Gross Costs with the public	0	0	126	57	0	0	0
Less: Earned Revenue	0	0	0	0	0	0	0
Net Costs with the public	0	0	126	57	0	0	0
Net Cost: Security Program	0	0	248	107	0	0	0
MANAGEMENT PROGRAM:							
Intra-governmental Gross Costs	0	0	167	0	0	0	0
Less: Earned Revenue	0	0	(720)	0	0	0	0
Intra-governmental Net Costs	0	0	(553)	0	0	0	0
Gross Costs with the public	0	0	770	0	0	0	0
Less: Earned Revenue	0	0	0	0	0	0	0
Net Costs with the public	0	0	770	0	0	0	0
Net Cost: Management Program	0	0	217	0	0	0	0
Net Cost of Treasury Operations	\$ (31)	\$ 318	\$ (984)	\$ 107	\$ 1,008	\$ 11,740	\$ (15)

Fiscal Year Ended
September 30, 2007

Program Costs:	Office of the Comptroller of the Currency	Office of Thrift Supervision	Alcohol, Tobacco Tax and Trade Bureau	Combined Total	Eliminations and Adjustments	9/30/2007 Consolidated
FINANCIAL PROGRAM:						
Intra-governmental Gross Costs	\$ 0	\$ 0	\$ 14	\$ 5,623	\$ (1,441)	\$ 4,182
Less: Earned Revenue	0	0	0	(2,300)	291	(2,009)
Intra-governmental Net Costs	0	0	14	3,323	(1,150)	2,173
Gross Costs with the public	0	0	35	9,798	0	9,798
Less: Earned Revenue	0	0	(2)	(236)	0	(236)
Net Costs with the public	0	0	33	9,562	0	9,562
Net Cost: Financial Program	0	0	47	12,885	(1,150)	11,735
ECONOMIC PROGRAM:						
Intra-governmental Gross Costs	89	30	13	351	(48)	303
Less: Earned Revenue	(27)	(16)	0	(907)	889	(18)
Intra-governmental Net Costs	62	14	13	(556)	841	285
Gross Costs with the public	548	195	35	5,357	0	5,357
Less: Earned Revenue	(669)	(227)	(1)	(6,098)	0	(6,098)
Net Costs with the public	(121)	(32)	34	(741)	0	(741)
Net Cost: Economic Program	(59)	(18)	47	(1,297)	841	(456)
SECURITY PROGRAM:						
Intra-governmental Gross Costs	0	0	0	186	(67)	119
Less: Earned Revenue	0	0	0	(14)	12	(2)
Intra-governmental Net Costs	0	0	0	172	(55)	117
Gross Costs with the public	0	0	0	183	0	183
Less: Earned Revenue	0	0	0	0	0	0
Net Costs with the public	0	0	0	183	0	183
Net Cost: Security Program	0	0	0	355	(55)	300
MANAGEMENT PROGRAM:						
Intra-governmental Gross Costs	0	0	0	167	(54)	113
Less: Earned Revenue	0	0	0	(720)	277	(443)
Intra-governmental Net Costs	0	0	0	(553)	223	(330)
Gross Costs with the public	0	0	0	770	0	770
Less: Earned Revenue	0	0	0	0	0	0
Net Costs with the public	0	0	0	770	0	770
Net Cost: Management Program	0	0	0	217	223	440
Net Cost of Treasury Operations	\$ (59)	\$ (18)	\$ 94	\$ 12,160	\$ (141)	\$ 12,019

20. ADDITIONAL INFORMATION RELATED TO THE COMBINED STATEMENTS OF BUDGETARY RESOURCES

Federal agencies are required to disclose additional information related to the Combined Statements of Budgetary Resources (per OMB Circular A-136, *Financial Reporting Requirements as amended*). In accordance with SFFAS No. 7, the Department must report the value of goods and services ordered and obligated which have not been received. This amount includes any orders for which advance payment has been made but for which delivery or performance has not yet occurred. The information for the fiscal years ended September 30, 2008 and September 30, 2007 was as follows (in millions):

	2008	2007
Undelivered orders at the end of the period	\$ 57,513	\$ 56,304
Available borrowing and contract authority at the end of the period	\$ 5,716	\$ 5,716

Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

	2008	2007
Obligations Incurred		
Direct - Category A	\$ 7,050	\$ 6,525
Direct - Category B	20,623	14,197
Direct - Exempt from Apportionment	455,126	440,277
Total Direct	\$ 482,799	\$ 460,999
Reimbursable - Category A	2	0
Reimbursable - Category B	3,287	3,344
Reimbursable - Exempt from Apportionment	1,446	1,187
Total Reimbursable	\$ 4,735	\$ 4,531
Total Direct and Reimbursable	\$ 487,534	\$ 465,530

Reconciliation of the President's Budget

The *Budget of the United States* (also known as the President's Budget), with actual numbers for fiscal year 2008, was not published at the time that these financial statements were issued. The President's Budget is expected to be published in 2009. It will be available from the United States Government Printing Office. The following chart displays the differences between the Combined Statement of Budgetary Resources (SBR) in the fiscal year 2007 Performance and Accountability Report and the actual fiscal year 2007 balances included in the fiscal year 2009 President's Budget (PB).

Reconciliation of Fiscal Year 2007 Combined Statement of Budgetary Resources to the Fiscal Year 2009 President's Budget (in Millions)

	Budgetary Resources	Outlays (net of offsetting collections)	Offsetting Receipts	Net Outlays	Obligations Incurred
Statement of Budgetary Resources Amounts	\$ 522,980	\$ 452,110	\$ (16,040)	\$ 436,070	\$ 465,530
Included in the Treasury Chapter of the President's Budget (PB) but not in the Statement of Budgetary Resources (SBR):					
IRS non-entity tax credit payments (1)	57,830	57,830	(13)	57,817	57,830
Tax and Trade Bureau (TTB) non-entity collections for Puerto Rico	462	462	0	462	0
Non-Treasury offsetting receipts included in Treasury chapter of PB	0	0	(53)	(53)	0
Treasury offsetting receipts considered to be "General Fund" transactions for reporting purposes (2)	0	0	(53)	(53)	0
Continued dumping subsidy – CBP	388	381	0	381	381
Other	2	1	(1)	0	1
Subtotal	\$ 58,682	\$ 58,674	\$ (120)	\$ 58,554	\$ 58,212
Included in the SBR but not in the Treasury chapter of the PB:					
Treasury resources shown in non-Treasury chapters of the PB, included in SBR (3)	(34,543)	(3,489)	0	(3,489)	(8,315)
Offsetting collections net of collections shown in PB	(7,224)	0	(741)	(741)	0
Treasury offsetting receipts shown in other chapters of PB, part of which is in SBR	0	0	198	198	0
Unobligated balance carried forward, recoveries of prior year funds and expired accounts	(1,339)	0	0	0	(35)
Exchange Stabilization Fund resources not shown in PB (4)	(28,919)	0	0	0	(307)
Treasury Financing Accounts (CDFI and ATSB)	(110)	(18)	24	6	(106)
IRS user fees and 50% Transfer Accounts and Capital Transfers to General Fund not included in PB	(108)	0	0	0	0
Other	(2)	(3)	6	3	(3)
Subtotal	\$ (72,245)	\$ (3,510)	\$ (513)	\$ (4,023)	\$ (8,766)
Trust Fund – Comptroller of the Currency (OCC) (5)	0	103	0	103	0
President's Budget Amounts*	\$ 509,417	\$ 507,377	\$ (16,673)	\$ 490,704	\$ 514,976

1. These are primarily Earned Income Tax Credit and Child Tax Credit payments that are reported with refunds as custodial activities in Treasury's financial statements and thus are not reported as budgetary resources.
2. These are receipt accounts that Treasury manages on behalf of other agencies and considers to be "General Fund" receipts rather than receipts of the Treasury reporting entity.
3. The largest of these resources relate to Treasury's International Assistance Programs.
4. Exchange Stabilization Fund (ESF) is a self-sustaining component that finances its operations with the buying and selling of foreign currencies to regulate the fluctuations of the dollar. Because of the nature of the activities of the component, it does not receive appropriations, and therefore is excluded from the PB.
5. Negative outlay for OCC included in both Analytical Perspectives and the Appendix.

* Per President's Budget for fiscal year 2009 – Budgetary Resources and Outlays are from the Analytical Perspective. Offsetting Receipts and Obligations Incurred are from the Appendix.

Legal Arrangements Affecting Use of Unobligated Balances

The use of unobligated balances is restricted based on annual legislation requirements or enabling authorities. Funds are presumed to be available for only one fiscal year unless otherwise noted in the annual appropriation language. Unobligated balances in unexpired fund symbols are available in the next fiscal year for new obligations unless some restrictions had been placed on those funds by law. In those situations, the restricted funding will be temporarily unavailable until such time as the reasons for the restriction have been satisfied or legislation has been enacted to remove the restriction.

Amounts in expired fund symbols are not available for new obligations, but may be used to adjust obligations and make disbursements that were recorded before the budgetary authority expired or to meet a bona fide need that arose in the fiscal year for which the appropriation was made.

21. COLLECTION AND DISPOSITION OF CUSTODIAL REVENUE

The Treasury Department collects the majority of federal revenue from income and excise taxes. Collection activity, by revenue type and tax year, was as follows for the fiscal years ended September 30, 2008 and September 30, 2007 (in millions):

	Tax Year				2008 Collections
	2008	2007	2006	Pre-2006	
Individual Income and FICA Taxes	\$ 1,455,017	\$ 799,244	\$ 23,498	\$ 16,567	\$ 2,294,326
Corporate Income Taxes	222,000	113,949	2,010	16,104	354,063
Estate and Gift Taxes	23	19,248	1,266	9,287	29,824
Excise Taxes	48,106	17,909	119	159	66,293
Railroad Retirement Taxes	3,769	1,164	1	5	4,939
Unemployment Taxes	5,146	2,026	42	117	7,331
Federal Reserve Earnings	25,879	7,719	0	0	33,598
Fines, Penalties, Interest, and Other Revenue	1,936	297	0	0	2,233
Subtotal	\$ 1,761,876	\$ 961,556	\$ 26,936	\$ 42,239	\$ 2,792,607
Less Amounts Collected for Non-federal Entities					(407)
Total					\$ 2,792,200

	Tax Year				2007 Collections
	2007	2006	2005	Pre-2005	
Individual Income and FICA Taxes	\$ 1,408,591	\$ 750,587	\$ 23,861	\$ 18,425	\$ 2,201,464
Corporate Income Taxes	253,376	116,342	2,938	22,664	395,320
Estate and Gift Taxes	45	16,162	1,571	9,200	26,978
Excise Taxes	49,660	17,807	90	209	67,766
Railroad Retirement Taxes	3,576	1,127	1	14	4,718
Unemployment Taxes	5,198	2,041	51	126	7,416
Federal Reserve Earnings	26,255	5,788	0	0	32,043
Fines, Penalties, Interest, and Other Revenue	2,661	423	0	0	3,084
Subtotal	\$ 1,749,362	\$ 910,277	\$ 28,512	\$ 50,638	\$ 2,738,789
Less Amounts Collected for Non-federal Entities					(486)
Total					\$ 2,738,303

Amounts reported for Corporate Income Taxes collected in fiscal year 2008 include corporate taxes of \$10 billion for tax year 2009 (similarly, amounts reported for Corporate Income Taxes collected in fiscal year 2007 include corporate taxes of \$10 billion for tax year 2008). Individual Income and FICA Taxes includes \$79 billion in payroll taxes collected from other federal agencies (\$72 billion in fiscal year 2007).

Amounts Provided to Fund the Federal Government

For the fiscal years ended September 30, 2008 and September 30, 2007, collections of custodial revenue transferred to other entities were as follows (in millions):

	2008	2007
Department of the Interior	\$ 312	\$ 288
General Fund	2,365,814	2,445,331
Total	\$ 2,366,126	\$ 2,445,619

Federal Tax Refunds Paid

Refund activity, broken out by revenue type and by tax year, was as follows for the fiscal years ended September 30, 2008 and September 30, 2007 (in millions):

	Tax Year				2008 Refunds
	2008	2007	2006	Pre-2006	
Individual Income and FICA Taxes	\$ 935	\$ 342,216	\$ 19,217	\$ 6,980	\$ 369,348
Corporate Income Taxes	2,206	19,610	10,446	22,078	54,340
Estate and Gift Taxes	0	343	428	251	1,022
Excise Taxes	439	497	107	208	1,251
Railroad Retirement Taxes	0	1	1	(9)	(7)
Unemployment Taxes	1	65	14	39	119
Fines, Penalties, Interest, and Other Revenue	1	0	0	0	1
Total	\$ 3,582	\$ 362,732	\$ 30,213	\$ 29,547	\$ 426,074

	Tax Year				2007 Refunds
	2007	2006	2005	Pre-2005	
Individual Income and FICA Taxes	\$ 1,823	\$ 235,151	\$ 17,839	\$ 6,242	\$ 261,055
Corporate Income Taxes	1,241	8,122	4,278	14,509	28,150
Estate and Gift Taxes	0	256	490	223	969
Excise Taxes	416	570	253	1,131	2,370
Railroad Retirement Taxes	0	5	1	7	13
Unemployment Taxes	0	75	16	36	127
Total	\$ 3,480	\$ 244,179	\$ 22,877	\$ 22,148	\$ 292,684

Federal Tax Refunds Payable

As of September 30, 2008 and September 30, 2007, refunds payable to taxpayers consisted of the following (in millions):

	2008	2007
Alcohol, Tobacco Tax and Trade Bureau	\$ 12	\$ 9
Internal Revenue Service	\$ 3,064	\$ 1,675
Total	\$ 3,076	\$ 1,684

22. EARMARKED FUNDS

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities or purposes. SFFAS No. 27, *Identifying and Reporting Earmarked Funds*, issued by the FASAB defines the following three criteria for determining an earmarked fund: 1) A statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits or purposes; 2) Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and 3) A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the government's general revenues.

The majority of Treasury's earmarked fund activities are attributed to the ESF and the pension and retirement funds managed by the Office of DCP. In addition, several Treasury bureaus operate with "public enterprise revolving funds" and receive no appropriations from the Congress. These bureaus are BEP, U.S. Mint, OCC, and OTS. Other miscellaneous earmarked funds are managed by BPD, DO, FMS, and TFF.

The following is a list of earmarked funds and a brief description of the purpose, accounting, and uses of these funds.

Exchange Stabilization Fund (ESF)

ESF	20X4444	Exchange Stabilization Fund
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D.C. Pensions

DCP	20X1713	Federal payment – D.C. Judicial Retirement
DCP	20X1714	Federal payment – D.C. Federal Pension Fund
DCP	20X5511	D.C. Federal Pension Fund
DCP	20X8212	D.C. Judicial Retirement and Survivor's Annuity Fund

Public Enterprise Revolving Funds

BEP	20X4502	Bureau of Engraving and Printing Public Enterprise Fund
MNT	20X4159	Public Enterprise Revolving Fund
OCC	20X8413	Assessment Funds
OTS	20X4108	Public Enterprise Revolving Fund
IRS	20X4413	Federal Tax Lien Revolving Fund

Other Earmarked Funds

BPD	2061738	Payments to the Terrestrial Wildlife Habitat Restoration
BPD	2071738	Payments to the Terrestrial Wildlife Habitat Restoration
BPD	2081738	Payments to the Terrestrial Wildlife Habitat Restoration
BPD	20X5080	Gifts to Reduce Public Debt
BPD	20X5080.001	Receipt of Gifts to Reduce Public Debt
BPD	20X8207	Lower Brule Sioux Tribe Terrestrial Wildlife Habitat Restoration Trust Fund
BPD	20X8209	Cheyenne River Sioux Terrestrial Wildlife Habitat Restoration Trust Fund
DO	20X5407	Sallie Mae Assessments
DO	20X5816	Confiscated and Vested Iraqi Property and Assets

DO	20X8790	Gifts and Bequests Trust Fund
FMS	205445	Debt Collection
FMS	20X5081	Presidential Election Campaign
FMS	20X8902	Esther Cattell Schmitt Gift Fund
FMS	202/35445	Debt Collection Special Fund
FMS	203/45445	Debt Collection Special Fund
FMS	204/55445	Debt Collection Special Fund
FMS	205/65445	Debt Collection Special Fund
FMS	206/75445	Debt Collection Special Fund
FMS	207/85445	Debt Collection Special Fund
FMS	208/95445	Debt Collection Special Fund
IRS	20X5510	Private Collection Agent Program
TFF	20X5697	Treasury Forfeiture Fund

The ESF uses funds to purchase foreign currencies, to hold U.S. foreign exchange and SDR assets, and to provide financing to foreign governments. ESF accounts and reports its holdings to FMS on the SF224, "Statement of Transactions," as well as to the Congress and Treasury's policy office. The Gold Reserve Act of 1934, Bretton Woods Agreement Act of 1945, P.L. 95-147 and P.L. 94-564 established and authorized the use of the Fund. SDR in the IMF, Investments in U.S. Securities (BPD), and Investments in Foreign Currency Denominated assets are the sources of revenues or other financing sources. ESF's earnings and realized gains on foreign currency denominated assets represent inflows of resources to the government, and the revenues earned are the result of intra-governmental inflows.

D.C. Pension Funds provide annuity payments for retired D.C. teachers, police officers, judges, and firefighters. The sources of revenues are through annual appropriations, employees' contributions, and interest earnings from investments. All proceeds are earmarked. Note 15 provides detailed information on various funds managed by the Office of DCP.

Treasury's four non-appropriated bureaus, BEP, Mint, OCC, and OTS, operate "public enterprise funds" that account for the revenue and expenses related to the production and sale of numismatic products and circulating bureaus coinage (Mint), the currency printing activities (BEP), and support of oversight functions of banking (OCC) and thrift operations (OTS). 31 USC 142 established the revolving fund for BEP to account for revenue and expenses related to the currency printing activities. Public Law 104-52 (31 USC §5136) established the Public Enterprise Fund for the Mint to account for all revenue and expenses related to the production and sale of numismatic products and circulating coinage. Revenues and other financing sources at the Mint are mainly from the sale of numismatic and bullion coins, and the sale of circulating coins to the Federal Reserve Banks system. 12 USC 481 established the Assessment Funds for OCC, and 103 Stat. 278 established the Public Enterprise Revolving Fund for OTS. Revenue and financing sources are from the bank examination and assessments for the oversight of the national banks, savings associations, and savings and loan holding companies. These earmarked funds do not directly contribute to the inflows of resources to the government; however, revenues in excess of costs are returned to the General Fund of the U.S. Government. There are minimal transactions with other government agencies.

There are other earmarked funds at several Treasury Department bureaus, such as donations to the Presidential Election Campaign Fund, funds related to the debt collection program, gifts to reduce the public debt, and other enforcement related activities. Public laws, statutory laws, U.S. Code, and the Debt Collection Improvement Act

established and authorized the use of these funds. Sources of revenues and other financing sources include contributions, cash and property forfeited in enforcement activities, public donations, and debt collection.

Intra-governmental Investments in Treasury Securities

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. Treasury bureaus and other federal agencies invest some of the earmarked funds that they collect from the public. The funds are invested in securities issued by Treasury's Bureau of the Public Debt (BPD). The cash collected by BPD is deposited in the General Fund of the U.S. Government, which uses the cash for general government purposes.

The investments provide the Treasury Department bureaus and other federal agencies with authority to draw upon the General Fund of the U.S. Government to make future benefit payments or other expenditures. When Treasury Department bureaus or other federal agencies require redemption of these securities to make expenditures, the government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the government finances all other expenditures.

The securities are an asset to the Treasury Department bureaus and other federal agencies and a liability of the BPD. The General Fund of the U.S. Government is liable to BPD. Because Treasury Department bureaus and other federal agencies are parts of the U.S. Government, these assets and liabilities offset each other from the standpoint of the government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

The balances related to the investments made by Treasury Department bureaus are not displayed on Treasury's consolidated financial statements because the bureaus are subcomponents of the Treasury Department. However, the General Fund of the U.S. Government remains liable to BPD for the invested balances and BPD remains liable to the investing Treasury Department bureaus (Note 4).

Summary Information for Earmarked Funds as of and for the Year ended September 30, 2008 (In Millions):

	Exchange Stabilization Fund	D.C. Pensions	Public Enterprise Revolving Funds	Other Earmarked Funds	Combined Earmarked Funds	Eliminations*	09/30/2008 Totals
Balance Sheet							
ASSETS:							
Fund Balance	\$ 33	\$ 0	\$ 459	\$ 228	\$ 720	\$ 0	\$ 720
Investments/Related Interest – Intra-governmental	16,847	3,859	1,251	592	22,549	22,549	0
Cash, Foreign Currency/Other Monetary Assets	22,221	0	0	16	22,237	0	22,237
Investments and Related Interest	10,543	0	0	0	10,543	0	10,543
Other Assets	298	16	1,292	133	1,739	9	1,730
Total Assets	\$ 49,942	\$ 3,875	\$ 3,002	\$ 969	\$ 57,788	\$ 22,558	\$ 35,230
LIABILITIES:							
Intra-governmental Liabilities	\$ 0	\$ 0	\$ 37	\$ 150	\$ 187	\$ 29	\$ 158
Certificates Issued to Federal Reserve	2,200	0	0	0	2,200	0	2,200
Allocation of Special Drawing Rights	7,630	0	0	0	7,630	0	7,630
Other Liabilities	330	8,856	617	182	9,985	0	9,985
Total Liabilities	\$ 10,160	\$ 8,856	\$ 654	\$ 332	\$ 20,002	\$ 29	\$ 19,973
NET POSITION:							
Unexpended Appropriations	\$ 200	\$ 0	\$ 0	\$ 0	\$ 200	\$ 0	\$ 200
Cumulative Results of Operations	39,582	(4,981)	2,348	637	37,586	0	37,586
Total Liabilities and Net Position	\$ 49,942	\$ 3,875	\$ 3,002	\$ 969	\$ 57,788	\$ 29	\$ 57,759
Statement of Net Cost							
Gross Cost	\$ 250	\$ 339	\$ 3,496	\$ 337	\$ 4,422	\$ 62	\$ 4,360
Less Earned Revenue	(1,986)	(152)	(3,593)	(6)	(5,737)	(650)	(5,087)
Total Net Cost of Operations	\$ (1,736)	\$ 187	\$ (97)	\$ 331	\$ (1,315)	\$ (588)	\$ (727)
Cumulative Results of Operations							
Beginning Balance	\$ 37,846	\$ (5,141)	\$ 2,206	\$ 474	\$ 35,385	\$ 0	\$ 35,385
Budgetary Financing Sources	0	347	0	442	789	23	766
Other Financing Sources	0	0	45	52	97	(31)	128
Total Financing Sources	0	347	45	494	886	(8)	894
Net Cost of Operations	1,736	(187)	97	(331)	1,315	588	727
Net Change	1,736	160	142	163	2,201	580	1621
Total Cumulative Results of Operations	\$ 39,582	\$ (4,981)	\$ 2,348	\$ 637	\$ 37,586	\$ 580	\$ 37,006

* The eliminations reported above include both inter and intra eliminations for the Earmarked Funds. The total eliminations amount will not agree with the eliminations reported in the Statement of Changes in Net Position, which include eliminations for Other Funds.

Summary Information for Earmarked Funds as of and for the Year ended September 30, 2007 (In Millions):

	Exchange Stabilization Fund	D.C. Pensions	Public Enterprise Revolving Funds	Other Earmarked Funds	Combined Earmarked Funds	Eliminations*	09/30/2007 Totals
Balance Sheet							
ASSETS:							
Fund Balance	\$ 0	\$ 0	\$ 439	\$ 265	\$ 704	\$	\$ 704
Investments/Related Interest – Intra-governmental	16,439	3,856	1,124	482	21,901	21,901	0
Cash, Foreign Currency/Other Monetary Assets	21,445	0	0	28	21,473		21,473
Investments and Related Interest	10,040	0	0	0	10,040		10,040
Other Assets	0	45	1,259	90	1,394	10	1,384
Total Assets	\$ 47,924	\$ 3,901	\$ 2,822	\$ 865	\$ 55,512	\$ 21,911	\$ 33,601
LIABILITIES:							
Intra-governmental Liabilities	\$ 0	\$ 0	\$ 24	\$ 198	\$ 222	\$ 13	\$ 209
Certificates Issued to Federal Reserve	2,200	0	0	0	2,200		2,200
Allocation of Special Drawing Rights	7,627	0	0	0	7,627		7,627
Other Liabilities	51	9,042	592	193	9,878		9,878
Total Liabilities	\$ 9,878	\$ 9,042	\$ 616	\$ 391	\$ 19,927	\$ 13	\$ 19,914
NET POSITION:							
Unexpended Appropriations	\$ 200	\$ 0	\$ 0	\$ 0	\$ 200		\$ 200
Cumulative Results of Operations	37,846	(5,141)	2,206	474	35,385		35,385
Total Liabilities and Net Position	\$ 47,924	\$ 3,901	\$ 2,822	\$ 865	\$ 55,512	\$ 13	\$ 55,499
Statement of Net Cost							
Gross Cost	\$ 703	\$ 446	\$ 2,997	\$ 234	\$ 4,380	\$ 56	\$ 4,324
Less Earned Revenue	(3,864)	(160)	(3,120)	0	(7,144)	(1,036)	(6,108)
Total Net Cost of Operations	\$ (3,161)	\$ 286	\$ (123)	\$ \$234	\$ (2,764)	\$ (980)	\$ (1,784)
Cumulative Results of Operations							
Beginning Balance	\$ 34,685	\$ (5,209)	\$ 1,816	\$ 322	\$ 31,614	\$ 0	\$ 31,614
Budgetary Financing Sources	\$ 0	\$ 354	\$ 0	\$ 354	\$ 708	\$ 40	\$ 668
Other Financing Sources	0	0	267	32	299	(16)	315
Total Financing Sources	0	354	267	386	1,007	24	983
Net Cost of Operations	3,161	(286)	123	(234)	2,764	980	1,784
Net Change	3,161	68	390	152	3,771	1,004	2,767
Total Cumulative Results of Operations	\$ 37,846	\$ (5,141)	\$ 2,206	\$ 474	\$ 35,385	\$ 1,004	\$ 34,381

* The eliminations reported above include both inter and intra eliminations for the Earmarked Funds. The total eliminations amount will not agree with the eliminations reported in the Statement of Changes in Net Position, which include eliminations for Other Funds.

23. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and the proprietary net cost of operations. For fiscal years 2008 and 2007, OMB did not prescribe a format for this reconciliation in OMB Circular A-136, *Financial Reporting Requirements*, as amended, so that preparers might develop a more robust presentation tailored to their agency. As of September 30, 2008 and September 30, 2007, the Reconciliation of Net Cost of Operations to Budget consisted of the following (in millions):

	2008	2007
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated:		
Obligations Incurred	\$ 487,534	\$ 465,530
Less: Spending Authority from Offsetting Collections and Recoveries	(9,401)	(10,237)
Obligations Net of Offsetting Collections and Recoveries	478,133	455,293
Less: Offsetting Receipts	(16,211)	(16,040)
Net Obligations	\$ 461,922	\$ 439,253
Other Resources:		
Donations and Forfeiture of Property	112	73
Financing Sources for Accrued and Discount on the Debt	(3,870)	7,632
Transfers In/Out Without Reimbursement	(21)	(24)
Imputed Financing from Cost Absorbed by Others	729	740
Transfers to the General Fund and Other (Note 18)	(20,788)	(12,293)
Net Other Resources Used to Finance Activities	(23,838)	(3,872)
GSE Transactions	13,800	0
Total Resources Used to Finance Activities	\$ 451,884	\$ 435,381
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not yet Provided	\$ 1,229	\$ 4,788
Credit Program Collections that Increase Liabilities for Loans Guarantees or Allowances for Subsidy	(5)	(94)
Adjustment to Accrued Interest and Discount on the Debt	(6,731)	4,385
Other (primarily non-exchange portion of offsetting receipts)	(10,745)	(14,089)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(16,252)	(5,010)
Total Resources Used to Finance the Net Cost of Operations	\$ 468,136	\$ 440,391
 Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	 14	 (18)
 Total Components of Net Cost of Operations that will not Require or Generate Resources	 1,201	 948
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	1,215	930
Net Cost of Operations	\$ 469,351	\$ 441,321

24. SPECIAL PROGRAMS WITH GOVERNMENT SPONSORED ENTERPRISES (GSE)

Steps Taken to Maintain Financial Stability of GSE

The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) are stockholder-owned GSE. Congress established these GSE to increase the supply of mortgage loans and to reduce the accompanying costs. A key Fannie Mae and Freddie Mac responsibility is to package purchased mortgages into securities. These securities are subsequently sold to investors. Proceeds from Fannie Mae and Freddie Mac sales are used to buy additional mortgages and keep money flowing through the mortgage markets. Fannie Mae and Freddie Mac direct, guaranteed debt, and mortgage backed securities (MBS) outstanding totaled approximately \$5 trillion dollars at September 30, 2008.

Increasingly difficult conditions in the housing market challenged the soundness and profitability of MBS, thereby undermining the entire housing market. This led Congress to pass the Housing and Economic Recovery Act of 2008 in July 2008 (HERA). This Act created the new Federal Housing Finance Agency (FHFA), with enhanced regulatory authority over the GSE, and provided the Secretary of the Treasury with certain authorities intended to ensure the financial stability of the GSE, if necessary.

Due to deteriorating conditions in the housing mortgage markets and the resulting negative financial impact on the GSE, they were placed under FHFA conservatorship on September 7, 2008. This action was taken to preserve GSE assets, ensure a sound and solvent financial condition, and mitigate systemic risks that contributed to market instability. The FHFA director will terminate the conservatorship once sound and solvent conditions are established.

Pursuant to the authorities provided to the Secretary under the HERA, the Treasury Department, also on September 7, 2008, took three additional steps discussed below to help ensure the liquidity of the GSE while they are working to resolve their financial difficulties.

Senior Preferred Stock Purchase Agreements

The first step was entering into senior preferred stock purchase agreements with each GSE on September 7, 2008. In exchange for entering into these agreements, Treasury Department initially received from each GSE: (1) 1,000,000 shares of non-voting variable liquidation preference senior preferred stock with a liquidation preference value of \$1,000 per share and (2) a non-transferrable warrant for the purchase at a nominal cost of 79.9percent of common stock on a fully-diluted basis. The warrants expire on September 7, 2028. The senior preferred stock accrues dividends at 10percent per year, payable quarterly. This rate shall increase to 12percent if, in any quarter, the dividends are not paid in cash, until all accrued dividends have been paid. In addition, beginning on March 31, 2010, the GSE will pay the Treasury Department a periodic commitment fee on a quarterly basis. This commitment fee will compensate the Treasury Department for the explicit support provided by the preferred stock agreements. This fee will be initially set by December 31, 2009, based on mutual agreement between the Treasury Department and each GSE, in consultation with the Chairman of the Federal Reserve Board. The fee shall be established for five-year periods, and may be waived by the Treasury Department for one year at a time if warranted by adverse mortgage market conditions. It may be paid in cash or may be added to the liquidation preference.

The senior preferred stock and warrants received in fiscal year 2008 are accounted for as non-entity investments in the Treasury Department's Fiscal Year 2008 Performance and Accountability Report. Their combined estimated value at September 08, 2008, is \$7,032 million and at September 30, 2008, is \$12,374 million. As these investments are accounted for at their fair value at the date of receipt, no increase in fair value is recorded. Other Federal Revenue of \$7,032 was recognized from the acquisition of preferred stock and warrants. Treasury recorded the investment using the appraisal value \$7,032 million at the date of purchase September 8, 2008, and then subsequently used the valuation \$12,371 million at the reporting date to determine that no permanent impairment had occurred. Therefore, the recorded amount remained at the historical appraised value.

These agreements, which have no expiration date, provide that the Treasury Department will increase its investment in the senior preferred stock if at the end of any quarter the FHFA determines that the liabilities of either GSE exceed its assets. The maximum amount available to each GSE under this agreement is \$100 billion. The Department determined that the net present value of this potential liability cannot be measured with sufficient reliability for fiscal year 2008. Accordingly, the estimated future liability, which would take into account increases in preferred stock liquidity value, associated dividends, and future commitment fees, is not recorded in the financial statements. The Department will attempt to make this determination on at least an annual basis going forward.

The actual recorded liability arising from the reported excess of GSE liabilities over assets as of September 30, 2008, is \$ 13.8 billion. This amount is also recorded as an expense for fiscal year 2008. As funds for these payments are appropriated directly to the Department, these payments are treated as entity expenses and reflected as such on the Statement of Net Cost and Cumulative Results of Operations. The payment of this liability in fiscal year 2009 will result in an increase to the nonentity investment in GSE preferred stock, with a corresponding increase in Due to the General Fund, as the Department holds the investment on behalf of the General Fund. The carrying value of the investment will be evaluated on at least an annual basis.

The full amount of the \$100 billion for each GSE, totaling \$200 billion, was appropriated in fiscal year 2008, and accounts for the increase in appropriated funds and the increase in Unobligated Balance Available as seen in Note 2.

GSE Credit Facility

The second step was the establishment of the Government Sponsored Enterprise Credit Facility (GSECF) to ensure credit availability to the GSE and the Federal Home Loan Banks. This lending facility will provide secured funding on an as needed basis under terms and conditions established by the Secretary to protect taxpayers. Fannie Mae, Freddie Mac, and the Federal Home Loan Banks are eligible to borrow under this program. The GSECF provides liquidity, if needed, until December 31, 2009.

Funding will be provided directly by Treasury from its account held at the Federal Reserve Bank of New York (FRBNY) in exchange for eligible collateral from the GSE which will be limited to guaranteed mortgage backed securities issued by the GSE as well as advances made by the Federal Home Loan Banks. Loan requests will require approval from Treasury and verification by the FRBNY that adequate collateral has been pledged. Loans made through the GSECF are subject to the federal debt limit. Loans will be for short-term durations and are in general expected to be for less than one month but no shorter than one week. Loans will not be made with a maturity date beyond December 31, 2009. The rate on a loan request ordinarily will be based on the daily London Interbank Borrowing Rate (LIBOR) for a similar term loan plus 50 basis points. The rate is set at the discretion of the Secretary with the objective of protecting the taxpayer, and is subject to change.

There is no stated limitation on loans provided through the GSECF. However, loans are limited to the amounts of available collateral.

There were no loans made through the GSECF in fiscal year 2008.

GSE Mortgage-Backed Securities Purchase Program

The third step was the initiation of a temporary program to further support the availability of mortgage financing for millions of Americans and to mitigate pressures on mortgage rates. Under this program, Treasury purchases GSE MBS in the open market. By purchasing these credit-guaranteed securities, Treasury seeks to broaden access to mortgage funding for current and prospective homeowners and to promote stability in the mortgage market.

The size and timing of the MBS purchases is subject to the discretion of the Secretary. The scale of the program will be based on developments in the capital and housing markets. Initial purchases of \$3.3 billion were made during September 2008. Additional purchases will be made as deemed appropriate through the expiration of this authority on December 31, 2009.

As these securities are backed by individual mortgages, they are accounted for under the Credit Reform Act of 1990.

25. TEMPORARY GUARANTEE PROGRAM FOR MONEY MARKET FUNDS

The Treasury Department has established a Temporary Guarantee Program (Program) for Money Market Funds. Under this Program the Treasury Department will guarantee to investors that they will receive the stable share price (SSP) for shares held in participating money market funds as of the close of business on September 19, 2008. President George W. Bush approved the use of existing authorities by Secretary Henry M. Paulson, Jr. to make available, as necessary, the assets of the Exchange Stabilization Fund (ESF) to support the Program. If a participating fund's market-based net asset value (NAV) falls below 99.5 percent of the SSP and is not cured, a Guarantee Event will be deemed to occur. If outlays become necessary, they would be paid out initially from the ESF, and then under the provisions of Section 131 of the Emergency Economic Stabilization Act of 2008, such outlays would be reimbursed from funds available under the Troubled Assets Relief Program (Note 26). Treasury is not currently aware of any Guarantee Events which have occurred at funds that have been accepted into the Program.

Eligible funds must be regulated under Rule 2a-7 of the Investment Company Act of 1940, must maintain a SSP, must have had a market-based NAV of at least 99.5 percent of the SSP as of September 19, 2008, and must be publicly offered and registered with the Securities and Exchange Commission. The Program will be in effect until December 18, 2008, with an option to extend until September 18, 2009, at the discretion of the Secretary of the Treasury.

To participate in the Program, eligible money market funds must submit an application and pay a premium of one basis point if the fund's NAV is greater than or equal to 99.75 percent of the SSP, or 1.5 basis points of the SSP if the fund's NAV is less than 99.75 percent of the SSP but greater than or equal to 99.50 percent of the SSP. If the Program is extended beyond December 18, new premium charges will apply and funds will have the option to renew their coverage.

As of September 30, 2008, the Department collected \$39.7 million in program participation premiums. As of October 10, 2008, the Department collected an additional \$298.1 million in premiums. These premiums represent the payments for the first three months of coverage which began September 19, 2008. All premium payments were invested into U.S. Government securities. Treasury received applications representing at least \$3 trillion of assets under management before the application deadline. As Treasury is currently reviewing the applications and determining eligibility for inclusion in the Program, the final assets under management that will be covered by the Program has not been determined. In addition, program participation payments from funds that are not accepted into the Program will be returned. Of the total \$337.8 million collected, \$45.0 million was recognized as earned revenue, while \$292.8 million remained as unearned revenue at September 30, 2008. The revenue is included in Economic Program earned revenue on the Statement of Net Cost. The unearned revenue is included in other liabilities on the Balance Sheet.

The Department of the Treasury's exposure under the Program, when a guarantee event occurs, is the difference between the SSP and the NAV at liquidation of the money market fund. The Department believes the risk of loss under the program is negligible, and no future liability is recorded at September 30, 2008.

26. SUBSEQUENT EVENTS

A. Emergency Economic Stabilization Act of 2008

The Emergency Economic Stabilization Act of 2008 (EESA) was signed into law on October 3, 2008. This law establishes a Troubled Asset Relief Program (TARP) to be administered by the Department of the Treasury. The TARP is intended to promote market stability and protect the U.S. economy by authorizing Treasury to purchase and guarantee troubled mortgage-related assets and other financial assets. EESA also provides for the purchase of any other financial instruments that the Secretary determines, after consultation with the Federal Reserve Board Chairman, is necessary in order to promote financial market stability.

The Secretary's authority to purchase financial assets was limited initially to \$250 billion in outstanding assets, and increased to \$350 billion upon certification by the President to the Congress on October 14, 2008. The authority can be increased to the maximum of \$700 billion upon submission of a written report from the President to the Congress detailing the Secretary's plan to exercise additional authority, providing Congress does not enact a law to remove the President's authority.

The \$700 billion limit shall be reduced by the difference between outstanding guaranteed obligations under the insurance program authorized by EESA, if any, and the balance in the Troubled Assets Insurance Financing Fund (TAIFF) established by EESA to guarantee timely payments on mortgage-related assets. The Secretary can guarantee timely payment of up to 100percent of the principal and interest on these insured assets. Institutions seeking this guarantee are required to pay risk-based premiums into the fund. The premiums will be in amounts determined by the Secretary, as necessary, to meet anticipated claims and eliminate any budgetary cost.

The EESA legislation terminates on December 31, 2009. However, the Secretary can extend this authority to October 3, 2010 upon submission of a written certification to Congress. EESA increases the statutory public debt limit by \$700 billion, from \$10.615 trillion to \$11.315 trillion.

Upon passage of EESA, Treasury established the Office of Financial Stability to administer the TARP. No EESA transactions occurred during fiscal year 2008. Through November 14, 2008, \$148 billion in financial assets were purchased through TARP.

B. Energy Improvement and Extension Act of 2008

P.L. 110-343, *Division B - Energy Improvement and Extension Act of 2008*, was enacted on October 3, 2008.

Section 113 of the Act allowed for the restructuring of the Advance to the Black Lung Trust Fund (the Fund) by the repayment of the market value of outstanding repayable advances with the proceeds of obligations issued by the Fund to the General Fund of the U.S. Government and a one time appropriation.

Effective October 7, 2008, the Black Lung Disability Trust Fund repaid the General Fund of the U.S. Government the market value of the outstanding repayable plus accrued interest by transferring (1) obligations whose denominations, rate, and maturity were prescribed by the Secretary of the Treasury and (2) the one time appropriation amount, which was the difference between the proceeds received from issuance of the obligations described above and the market value of the outstanding advances payable.

C. American International Group (AIG)

To help AIG work out its financial difficulties, the Federal Reserve Bank of New York agreed to lend up to \$85 billion to AIG pursuant to the authority in Section 13(3) of the Federal Reserve Act. The Department is not a party to the AIG credit facility with the Fed, and has no liabilities, commitments or guarantees pursuant to the Fed's arrangements with AIG or any other financial relationship with AIG.

Under the terms of the agreement with AIG and the Federal Reserve, an approximately 79.9 percent equity interest in AIG (in the form of Convertible Participating Serial Preferred Stock convertible into approximately 79.9 percent of the issued and outstanding shares of common stock) was to be issued to a trust to be established by AIG. The U.S. Treasury will be named as the beneficiary of that trust, so that when the stock is ultimately liquidated the proceeds will be deposited into the General Fund of the U.S. Government. The Treasury Department will be the recipient of any dividends and any proceeds from the liquidation of the stock on behalf of the General Fund. The accounting and reporting for any activities related to the government's interest in the stock held by the trust will be done by the Treasury Department.

Subsequent to September 30, 2008, the credit facility to assist AIG was restructured significantly. The credit facility was modified to be incorporated into the TARP described above. To provide additional financial assistance to AIG, the Department agreed in November 2008 to directly purchase \$40 billion in senior AIG preferred stock through the TARP. The Treasury Department will also receive common stock warrants for 2 percent of the outstanding AIG common stock, with the above-described convertible preferred stock interest to be owned by the trust reduced to 77.9 percent.

REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)

Introduction

This section provides the Required Supplemental Information as prescribed by Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*.

Other Claims for Refunds

The Treasury Department has estimated that \$22 billion may be payable as other claims for tax refunds. This estimate represents amounts (principal and interest) that may be paid for claims pending judicial review by the federal courts or internally. The total estimated payout (including principal and interest) for claims pending judicial review by the federal courts is \$5.0 billion and by appeals is \$17 billion.

Federal Taxes Receivable, Net

In accordance with SFFAS No. 7, some unpaid tax assessments do not meet the criteria for financial statement recognition as discussed in Note 1 to the financial statements. Although compliance assessments and write-offs are not considered receivables under federal accounting standards, they represent legally enforceable claims of the Federal Government. There is, however, a significant difference in the collection potential between compliance assessments and receivables.

The components of the total unpaid assessments at September 30, 2008, were as follows (in billions):

Total Unpaid Assessments	\$ 278
Less: Compliance Assessments	(67)
Write Offs	(99)
Gross Federal Taxes Receivable	\$ 112
Less: Allowance for Doubtful Accounts	(83)
Federal Taxes Receivables, Net	\$ 29

To eliminate double counting, the compliance assessments reported above exclude trust fund recovery penalties, totaling \$4 billion, assessed against officers and directors of businesses who were involved in the non-remittance of federal taxes withheld from their employees. The related unpaid assessments of those businesses are reported as taxes receivable or write-offs, but the Treasury Department may also recover portions of those businesses' unpaid assessments from any and all individual officers and directors against whom a trust fund recovery penalty is assessed.

Internal Revenue Service (IRS)

The unpaid assessments balance represents assessments resulting from taxpayers filing returns without sufficient payment, as well as from the IRS's enforcement programs such as examination, under-reporter, substitute for return, and combined annual wage reporting. A significant portion of this balance is not considered a receivable. Also, a substantial portion of the amounts considered receivables is largely uncollectible.

Under federal accounting standards, unpaid assessments require taxpayer or court agreement to be considered federal taxes receivable. Assessments not agreed to by taxpayers or the courts are considered compliance assessments and are not considered federal taxes receivable. Due to the lack of agreement, these compliance assessments are less likely to have future collection potential than those unpaid assessments that are considered federal taxes receivable.

Assessments with little or no future collection potential are called write-offs. Write-offs principally consist of amounts owed by deceased, bankrupt, or defunct taxpayers, including many failed financial institutions liquidated by the FDIC and the former Resolution Trust Corporation (RTC). As noted above, write-offs have little or no future collection potential, but statutory provisions require that these assessments be maintained until the statute for collection expires.

Deferred Maintenance

In fiscal year 2008, the Treasury Department had no material amounts of deferred maintenance costs to report on vehicles, buildings, and structures owned by the Department of the Treasury.

Deferred maintenance applies to owned PP&E. Deferred maintenance is maintenance that was not performed when it should have been, or was scheduled to be, and is put off or delayed for a future period. Maintenance is defined as the act of keeping capitalized assets in an "acceptable condition" to serve their required mission. It includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected useful life. Maintenance excludes activities aimed at expanding the capacity or significantly upgrading the assets to a different form than it was originally intended (*i.e.*, activities related to capitalized improvements, modernization, and/or restoration).

Logistic personnel use condition assessment surveys and/or the total life-cycle cost methods to determine deferred maintenance and acceptable operating condition of an asset. Periodic condition assessments, physical inspections, and review of manufacturing and engineering specifications, work orders, and building and other structure logistics reports can be used under these methodologies.

Money Market Insurance Program– Risk Assumed Disclosure

The Treasury Department is not recording a contingent liability for any risk assumed, because the Department of the Treasury's exposure under the Program is the difference between a stable share price and the net asset value at liquidation of the money market fund. For all of the reasons outlined in Note 25, and based on current information and the Federal programs in place, and as this is a temporary program dealing with issues of first impression, we believe the risk of loss to the Treasury Department is negligible.

Liquidity Commitment to Government Sponsored Enterprises (GSEs)

The liquidity commitment to the GSEs described in the senior preferred stock purchase agreements section of Note 24 is essentially an insurance program in that the Treasury Department received a commitment fee in return for a guarantee of GSE liquidity should their liabilities exceed their assets at the end of any future quarter.

The total program liability as of September 30, 2008 should include the amount of quarterly liquidity draws requested but not yet paid, accruals for amounts of liquidity draws not known until after the end of the quarter, and an estimated contingent liability for the discounted present value of future liquidity draws up to the \$200 billion combined liability limit. The discounted present value would take into account estimated offsetting increases in the liquidity preference of the preferred stock, increases in dividends on the increased liquidity preference, and annual commitment fees. However, due to the current uncertainties and turbulence in the financial markets, for fiscal year 2008 the estimated contingent liability amount does not have “sufficient reliability” to be recorded as a liability. The only liability that is recorded for fiscal year 2008 is the \$13.8 billion draw request received from the Federal Housing Finance Agency on behalf of Freddie Mac in November 2008 for the quarter ended September 30, 2008. As noted above, the total gross risk under this commitment was \$200 billion; after the November draw request, the remaining commitment is \$186.2 billion.



Fiscal Year 2008 Statement of Budgetary Resources Disaggregated by Sub-organization Accounts (in Millions):

	Engraving and Printing	Bureau Public Debt	Departmental Offices	Fin. Crimes Enforcement Network	Financial Management Service	Internal Revenue Service
Budgetary Resources						
Unobligated balance brought forward	\$ 112	\$ 131	\$ 55,288	\$ 11	\$ 259	\$ 662
Recoveries prior year unpaid obligations	0	125	133	2	15	105
Budget Authority:						
Appropriations	0	452,780	203,289	86	12,018	11,296
Borrowing authority	0	0	4	0	0	0
Spending authority offsetting collections:						
Earned: Collected	509	334	4,405	2	239	144
Change in receivable federal	8	(73)	2	1	2	28
Change in unfilled customer order:						
Advance received	5	0	(4)	0	0	0
Without advance from federal sources	0	(37)	6	2	(8)	(3)
Subtotal	522	453,004	207,702	91	12,251	11,465
Non-expenditure transfers, net	0	(2)	846	0	(18)	18
Temporarily not available	0	(5)	(4)	0	0	0
Permanently not available	0	(1,303)	(1,027)	(1)	(2,210)	(68)
Total Budgetary Resources	\$ 634	\$ 451,950	\$ 262,938	\$ 103	\$ 10,297	\$ 12,182
Status of Budgetary Resources						
Obligations incurred						
Direct	\$ 0	\$ 451,458	\$ 4,544	\$ 80	\$ 9,847	\$ 11,360
Reimbursable	538	317	511	4	211	140
Subtotal	538	451,775	5,055	84	10,058	11,500
Unobligated Balance						
Apportioned	96	144	213,380	15	212	217
Exempt from apportionment	0	23	33,932	0	18	0
Subtotal	96	167	247,312	15	230	217
Unobligated balance not available	0	8	10,571	4	9	465
Total Status of Budgetary Resources	\$ 634	\$ 451,950	\$ 262,938	\$ 103	\$ 10,297	\$ 12,182
Relationship Obligations to Outlays						
Obligated balance, net						
Unpaid obligations brought forward	\$ 102	\$ 297	\$ 55,202	\$ 16	\$ 332	\$ 1,440
Uncollected customer payments Federal sources brought forward	(39)	(299)	(9)	0	(39)	(22)
Total unpaid obligated balance, net	63	(2)	55,193	16	293	1,418
Obligations incurred, net	538	451,775	5,055	84	10,058	11,500
Gross Outlays	(536)	(451,788)	(5,335)	(85)	(10,046)	(11,399)
Recoveries prior year unpaid obligations	0	(125)	(133)	(2)	(15)	(105)
Change uncollected customer payments	(8)	110	(8)	(3)	6	(25)
Obligated balance net, end of period						
Unpaid obligations	103	159	54,789	13	329	1,436
Uncollected customer payments federal	(46)	(189)	(17)	(3)	(33)	(47)
Total unpaid obligated balance, net	57	(30)	54,772	10	296	1,389
Net Outlays						
Gross outlays	536	451,788	5,335	85	10,046	11,399
Offsetting collections	(514)	(334)	(3,871)	(2)	(239)	(144)
Distributed offsetting receipts	0	(14,789)	(236)	0	(986)	(200)
Net Outlays	\$ 22	\$ 436,665	\$ 1,228	\$ 83	\$ 8,821	\$ 11,055

	U.S. Mint	Office of the Comptroller of the Currency	Office of Thrift Supervision	Alcohol Tobacco Tax & Trade Bureau	Budgetary Total	9/30/2008 Non-Budgetary Financing
Budgetary Resources						
Unobligated balance brought forward	\$ 53	\$ 668	\$ 263	\$ 3	\$ 57,450	\$ 0
Recoveries prior year unpaid obligations	27	0	3	3	413	0
Budget Authority:						
Appropriations	0	0	0	94	679,563	0
Borrowing authority	0	0	0	0	4	34,304
Spending authority offsetting collections:						
Earned: Collected	2,066	740	263	3	8,705	335
Change in receivable federal	0	0	0	0	(32)	0
Change in unfilled customer order:						
Advance received	9	0	9	0	19	0
Without advance from federal sources	1	0	0	0	(39)	0
Subtotal	2,076	740	272	97	688,220	34,639
Non-expenditure transfers, net	0	0	0	0	844	0
Temporarily not available	0	0	0	0	(9)	0
Permanently not available	(15)	0	0	(2)	(4,626)	(4,767)
Total Budgetary Resources	\$ 2,141	\$ 1,408	\$ 538	\$ 101	\$ 742,292	\$ 29,872
Status of Budgetary Resources						
Obligations incurred						
Direct	\$ 0	\$ 0	\$ 0	\$ 95	\$ 477,384	\$ 5,415
Reimbursable	2,091	674	246	3	4,735	0
Subtotal	2,091	674	246	98	482,119	5,415
Unobligated Balance						
Apportioned	50	0	0	0	214,114	24,122
Exempt from apportionment	0	734	292	0	34,999	0
Subtotal	50	734	292	0	249,113	24,122
Unobligated balance not available	0	0	0	3	11,060	335
Total Status of Budgetary Resources	\$ 2,141	\$ 1,408	\$ 538	\$ 101	\$ 742,292	\$ 29,872
Relationship Obligations to Outlays						
Obligated balance, net						
Unpaid obligations brought forward	\$ 209	\$ 152	\$ 42	\$ 19	\$ 57,811	\$ 0
Uncollected customer payments Federal sources brought forward	(6)	(4)	0	0	(418)	0
Total unpaid obligated balance, net	203	148	42	19	57,393	0
Obligations incurred, net	2,091	674	246	98	482,119	5,415
Gross Outlays	(2,013)	(660)	(241)	(96)	(482,199)	(5,409)
Recoveries prior year unpaid obligations	(27)	0	(3)	(3)	(413)	0
Change uncollected customer payments	(1)	0	0	0	71	0
Obligated balance net, end of period						
Unpaid obligations	260	166	44	19	57,318	6
Uncollected customer payments federal	(7)	(4)	0	(1)	(347)	0
Total unpaid obligated balance, net	253	162	44	18	56,971	6
Net Outlays						
Gross outlays	2,013	660	241	96	482,199	5,409
Offsetting collections	(2,075)	(740)	(272)	(3)	(8,194)	(335)
Distributed offsetting receipts	0	0	0	0	(16,211)	0
Net Outlays	\$ (62)	\$ (80)	\$ (31)	\$ 93	\$ 457,794	\$ 5,074

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